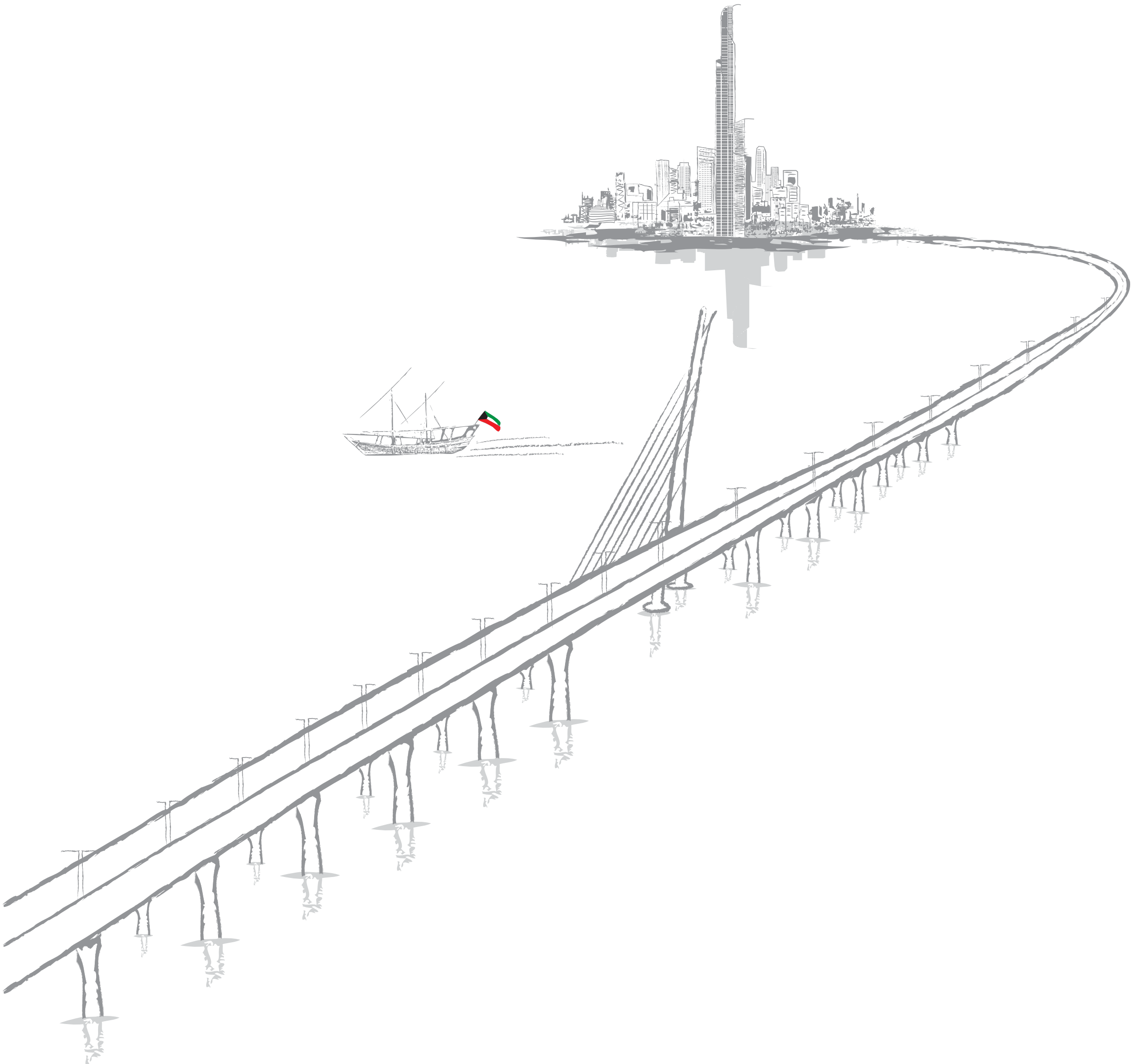
ANNUAL REPORT 2013



Kuwait Financial Centre

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


40
المركز
MARKAZ
Years of Success
عاما من النجاح

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BOARD OF DIRECTORS

1	Mr. Diraar Yusuf Alghanim	Chairman
2	Sheikh Humoud Sabah Al-Sabah	Vice Chairman
3	Mr. Faisal AbdulAziz Al-Jallal	Director
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

BOARD STEERING COMMITTEE

Diraar Yusuf Alghanim	Chairman
Ayman Abdulatif Al-Shaya	Director
Fahad Yaqoub Al-Jouan	Director
Manaf AbdulAziz Alhajeri	Committee Secretary

AUDIT COMMITTEE

Faisal AbdulAziz Al-Jallal	Chairman
Fouzi Ebrahim Al-Mukaimi	Director
Adel M. AlGhannam	Director
Maha I. Al-Kadi	Committee Secretary

MANAGEMENT TEAM

•Basma A. Ghareeb • Johnny Al-Khoury • Abdullatif Waleed Al-Nusif • Ali Mustafa Abdal • Khaled A. Chowdhury • Gopal Menon • M.R. Raghu

• Maha I. Al-Kadi • Bassam N. Al-Othman • Manaf A. Alhajeri • Ali H. Khalil • Hussein Ali Zeineddine

Manaf A. Alhajeri	Chief Executive Officer
Ali H. Khalil	Chief Operating Officer
Gopal Menon	Executive Vice President – International Investments
Bassam N. Al-Othman	Executive Vice President – MENA Real Estate
Amani I. Al-Omani	Executive Vice President – MENA Equities
Khaled A. Chowdhury	Executive Vice President – Financial Management
M.R. Raghu	Senior Vice President – Research
Ali Mustafa Abdal	Senior Vice President – Human Resources & Administration
Maha I. Al-Kadi	Senior Vice President – Support Services
Leila Badine	Vice President – Markaz Lebanon Branch
Abdullatif Waleed Al-Nusif	Vice President – Private Banking
Hussein Ali Zeineddine	Acting HOD – Compliance & Risk Management
Johnny Al-Khoury	Vice President – Information Technology
Basma A. Ghareeb	Vice President – Media & Communications

DIRECTORS' REPORT 2013

Dear Stakeholders,

GCC countries continued to enjoy strong current account surpluses due to favorable oil prices.

During 2013, the Gulf Cooperation Council (GCC) countries continued to enjoy strong current account surpluses due to favorable oil prices on the back of the geopolitical conditions in the Region. The GCC governments maintained healthy rates of spending to support economic growth in the non-oil sectors. With the exception of the State of Kuwait, the economies of the GCC countries witnessed favorable economic growth. Meanwhile, stock markets in GCC countries recorded a positive performance, consistent with the performance of advanced markets and exceeded the performance of emerging markets.

Despite the huge financial surpluses enjoyed by Kuwait, the structural distortion of the State's budget remains worrying.

In the case of Kuwait, the International Monetary Fund ("IMF") estimated GDP growth at 0.8% for 2013 compared with a growth of 6.2% for 2012, in view of a decline in the oil sector relative to 2012. The non-oil GDP growth rate remained healthy at 3.0% as estimated by IMF, notwithstanding a slowdown in capital spending by the government. Despite the huge financial surpluses enjoyed by Kuwait, the structural distortion of the State's budget remains worrying. Kuwait's capital spending amounted to 11% of the total spending, while the current spending had been witnessing a constant growth. Government subsidies and public sector's salaries constituted 55% of the total government spending.

The financial sector in Kuwait witnessed in 2013 the implementation of more regulatory requirements. The most critical regulation during the year was the Capital Markets Authority's (CMA) Resolution No.25 of 2013 regarding the "Corporate Governance Rules of Companies subject to CMA supervision." We expect an increase in investment regulations in 2014 onward with a greater focus on direct investments; this requires investment companies to continue improving capabilities pertaining to identification of market trends, deal sourcing, and due diligence. Therefore, reliance on research has become a basic requirement to comply and be able to operate.

During the year 2013, the performance of industrial countries' capital markets exceeded expectations, while emerging markets regressed contrary to expectations. In GCC countries, the most important development was the the inclusion of the UAE and Qatar capital markets into the Morgan Stanley Capital Index (MSCI) for emerging markets in May 2014 and the ratification of a new mortgage law in Saudi Arabia. Meanwhile, Kuwait Stock Exchange (KSE) witnessed an increase in liquidity and trading volume, and its price-weighted index increased by 27.2% while the market-cap-weighted index, which better reflects the performance of blue-chip stocks, increased only by 8.4%.

In 2013, Markaz numerous awards offered by distinguished institutions such as Global Investor Magazine and Euromoney Magazine.

The management of Markaz continued developing its internal capabilities, policies and procedures to coop with the arising challenges resulting from fast changing operating environment due to tightening regulation, competition, and the increase in client sophistication. This reflected positively on the performance of all Markaz's activities, which realized growth in returns, in addition to winning numerous awards offered by distinguished institutions such as the "Best Asset Manager in Kuwait" by Global Investor Magazine and "Best Investment Bank in Kuwait" by Euromoney Magazine.

It is worth noting that Markaz would have not achieved such positive results without the high standards of professionalism assumed by its employees. Their dedication towards developing the Company's various activities and their devotion in serving Markaz's clients were the main drivers of this success, which was led by a proactive and efficient management and supported by the confidence of our clients and shareholders.

Financial Results for the Year 2013

Markaz has achieved a net profit of KD 6.23 million for the year ending 31st December 2013; an Earnings per Share (EPS) of 13 Fils.

Markaz has achieved a net profit of KD 6.23 million for the year ending 31st December 2013; an Earnings per Share (EPS) of 13 Fils as compared with a net profit of KD 4.06 million and an EPS of 8 Fils per share in 2012. Markaz's growth in earnings was a result of favorable investment returns across all its asset classes as well as a net improvement in its assets under management, while maintaining control over the operating expenses.

Markaz's total equity attributable to shareholders increased by more than 7% to KD 96.25 million at the end of December 2013 in comparison to KD 89.85 million at the end of 2012. Markaz's total assets under management (AUM) reached KD 975 million with an increase of 10% compared to KD 883 million as of 31st December 2012.

In compliance with regulatory measures by Central Bank of Kuwait (CBK), the financial leverage ratio of Markaz reached 0.25:1 in comparison to the imposed rate by CBK of 2:1, which shows the low leverage rate of Markaz. While the quick ratio (the ratio of liquid assets due within one month) should not be less than 10% of total liabilities according to CBK, Markaz's rate was 26.19%. These percentages reflect Markaz's policy to maintain a liquid and flexible balance sheet in order achieve consistent and sustainable performance.

Markaz Board of Directors recommended a cash dividend of 10 Fils per share to shareholders on record as of the date of the General Assembly.

Subject to the requisite consent of the relevant authorities and approval of the General Assembly, Markaz Board of Directors recommended a cash dividend of 10 Fils per share to shareholders on record as of the date of the General Assembly.

Our Activities

Asset Management

MENA Equities

The Saudi Arabian capital market index, TASI, posted a gain of 29% in 2013; this gain was consistent across all its sectors. Key sectors like petrochemicals and banking gained 29% and 22% respectively. Corporate earnings were strong, the aggregate ROE for listed companies reached 13%.

Performance in the Kuwait Stock Exchange was too diverse, small cap stocks have substantially outperformed the large and mid-cap stocks.

Meanwhile, the performance of companies on the Kuwait Stock Exchange was too diverse, small cap stocks have substantially outperformed the large and mid-cap stocks. The Weighted Index gained 8.4% for the year, whereas the Price Index gain 27.2% for the same period. ROE (TTM) of listed companies on KSE stood at 7.4%, which was one of the lowest among the GCC countries, indicating that the earnings generating capacity of companies is still a concern.

Qatar stock exchange ended another year on a strong note. S&P Qatar Index gaining 30%; which was consistent across all its sectors. MSCI's upgrade to emerging market status was one of the positive events during the first half of 2013; which induced additional capital inflows. Significant government-backed infrastructure spending slated for the Football World Cup ("FWC") still holds positive structural implications. Qatari listed companies' earning capacity is strong with a ROE (TTM) of 14.3% for the year 2013.

S&P UAE has posted the best results among GCC markets and witnessed a significant gain of 92% for the year 2013 on the back of increasing real estate prices and increasing investors' confidence. Dubai's successful bid for the World Expo 2020 has strengthened the growth momentum as a huge investment plan is going to bode well for the economy as a whole. During the year, MSCI upgraded UAE status to emerging market which is an indication of improving investors' confidence. Meanwhile, S&P Oman was up by 20%, and S&P Bahrain was up by 42% for the year, which is a very positive performance compared to the previous year's performance.

For the fourth consecutive year, Markaz won the "Best Asset Manager in Kuwait" award by Global Investor Magazine.

For the fourth consecutive year, Markaz won the "Best Asset Manager in Kuwait" award by Global Investor Magazine in 2013, a Euromoney publication specialized in

DIRECTORS' REPORT 2013 (continued)

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

International Investment

Developed markets delivered positive equity returns, while emerging markets did not meet expectations.

The year 2013 witnessed the decoupling of equity markets performances. Developed markets delivered positive equity returns, while emerging markets did not meet expectations. The S&P 500 delivered its strongest annual gain since 1997. MSCI World Index surged 24.10%, and MSCI Europe Index robustly rallied 21.68%. The Dow, S&P 500, and NASDAQ climbed 26.50%, 29.60%, and 38.32% respectively in the year. MSCI Emerging Market shed 4.98% for the year, while China was flat gaining 0.40%.

Markaz's International Investments proprietary portfolio returned a solid 13.89%, outperforming our strategic benchmark by 890 basis points. Our superior performance was mainly attributed to our overweight position in the US, where our managers generated decent returns.

For more details regarding Markaz international funds and programs, please visit Markaz website: www.markaz.com

Private Equity

Markaz Private Equity Portfolio generated a positive cash flow and a healthy aggregate overall return.

During the year 2013, the Markaz Private Equity Portfolio generated a positive cash flow and a healthy aggregate overall return. At the global level, private equity fundraising for the year totaled USD 431 billion, a 13% increase compared to the same period last year. Fund closings in the year represented the highest amount of capital raised since 2008, led by North America and Europe-focused funds. The asset class continues to attract investors as private equity funds outperform the S&P 500 over periods of five to ten years.

Treasury

Markaz's Treasury is managing the Company's assets and liability positions. The Treasury Department has maintained sufficient liquidity levels, yielding the proper balance of assets and liabilities, which enabled Markaz to timely honor its financial obligations. The Treasury Department provides key support to all other departments by providing 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

Consistent with the market environment, Markaz continues to build strong capabilities in mergers and acquisitions, restructuring advisory services (either representing creditors or corporations), distressed debt transactions, liquidating non-core assets for our clients, and raising fresh capital (debt and/or equity) for local corporations. Markaz is currently executing eight advisory mandates, including financial restructuring, corporate restructuring, buy-side advisory, valuation advisory, and cross-border M&A. The Company is also actively bidding for a number of transaction advisory roles for the public-private partnership projects. In 2013, Markaz has been awarded the "Best Investment Bank in Kuwait" by Euromoney and EMEA Finance.

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Fixed Income

During the year 2013, the total value of the new GCC Bonds and Sukuks issuance was USD 45.441 billion raised through 164 issuances, a slight increase by 0.73% from USD 45.111 billion raised in 2012 from 168 issues.

Markaz Fixed Income Fund's "MFIF" assets were allocated across GCC countries and across various sectors including government, financial services, oil & gas, power &

utilities, real estate, telecom, and transport. The Fund registered positive results for the year 2013. For more details on MFIF performance please visit Markaz website: www.markaz.com

Structured Finance

Markaz Structured Finance team has successfully completed the development phase of its new fully-fledged asset management solution that is intended to replace all currently used portfolio, fund management, and accounting systems at Markaz. The new system will enable the firm to consolidate and streamline its core operations in a single integrated platform that will vastly improve its risk controls, management capabilities, and operational efficiency. In addition, Markaz continues its efforts towards developing the derivatives market in Kuwait in coordination with CMA and KSE.

MENA Real Estate Investment

Kuwait real estate market continued its upward trend for the investment property sector, prime light industrial properties, and commercial-retail properties, while the commercial office is stabilizing. KSA residential real estate market remains attractive, though cautiously in the villas sector due to the expected increase of supply from the government housing initiatives, while the office market is suffering from an oversupply in major cities except in Eastern Province. Residential properties in Abu Dhabi improved noticeably, while office properties continued their slow decline. Residential properties in Qatar remained stable, while the office market is still suffering from an oversupply. Dubai residential real estate market is slowing down after a large increase in prices during the past year.

Meanwhile, Markaz Real Estate Development Company "MREDCO," conceived to benefit from the demand for residential units in KSA, has progressed with its 54 villas development in Al Khobar in the Eastern Province of Saudi Arabia. Sales of the units are progressing with 52 villas sold as of the end of the year 2013. We expect to exit the investment by Q2 2014.

Markaz is also closing an acquisition in Abu Dhabi Reem Island with the plan to develop a residential apartments building to be rented and sold as an income generating property.

In addition, the MENA Real Estate Department at Markaz continues to manage part of the KIA National real estate portfolio valued at KD 250 million, for a period of 10 years targeting investments in Kuwait's real estate market.

MENA Real Estate Department at Markaz continues to manage part of the KIA National real estate portfolio valued at KD 250 million, for a period of 10 years.

International Real Estate

The core segment of the U.S. commercial real estate market has witnessed the strongest capital market activity as investors are paying premium prices for stabilized properties. Development projects in supply constrained metros are also gaining momentum as the spread between development yields and cap rates is at record high levels.

Consistent with the above, we are pro-actively managing our real estate portfolio with a view to stabilizing assets and subsequently liquidating cash-flowing assets at premium prices. We are also selectively pursuing development transactions in growth markets. During 2013, the highlight of Markaz's International Real Estate activities included:

Markaz pro-actively manages its US real estate portfolio with a view to stabilizing assets and subsequently liquidating cash-flowing assets at premium prices.

DIRECTORS' REPORT 2013 (continued)

- Successful sale of one of the properties from our distressed debt portfolio at a total return multiple of 1.52 and actively managing the remaining portfolio with the aim of liquidating assets that have reached stabilized occupancy levels and values.
- Successful refinancing of one of our properties from our multifamily fund and in the final stages of selling another.
- Initiating two office development projects in Dallas, Texas, which are making good progress and benefiting from a very strong local economy.
- Starting a small residential development project in Istanbul, Turkey.
- Evaluating new development and value-add opportunities in the U.S. and internationally.

Oil and Gas

International energy equities climbed with the MSCI World Energy Index and the Oil Service Sector Index (OSX) ending the year by 15.3% and 27.6% respectively in 2013. Regional energy equities tracked by the Bloomberg GCC Energy Index, surged by 49.2% during the year.

Markaz Energy Fund improved in 2013 with gains stemming from local and regional investments.

Markaz manages a diversified portfolio within the oil and gas sector through Markaz Energy Fund "MEF." The Fund improved in 2013 with gains stemming from local and regional oil and gas equities and fixed income, which had a positive effect on the Fund's performance. For more information about the fund, please visit Markaz website: www.markaz.com

Support Departments

Research

During 2013, Markaz's Research Department produced and published research across various verticals like economic research, sector research, infrastructure research, and capital market research apart from the regular flow of periodic research. Key contributions on the economic research included studying directorship patterns in Saudi Arabia, Bankruptcy Laws in the GCC Region, and Kuwait's Private Public Partnership (PPP) Law.

Markaz added to its research repository 10 new infrastruture reports in power, water, ICT, and roads and railways.

In the infrastructure space, 10 new reports were added in power, water, ICT, and roads and railways. In sector reports, Markaz published 13 new reports in the areas of contracting, retail, FIFA world cup, media, hospitality, women investors, residential real estate, education, insurance, petrochemicals, islamic finance, investment banking, and asset management. The focus of the sector and infrastructure reports was primarily the GCC and MENA region.

Apart from this, the department also produced regular periodic reports ranging from daily morning briefs, outlook reports for GCC markets (semi-annual), and GCC corporate earnings reports (semi-annual). The department also actively networks with other departments within Markaz to add value from a research perspective. Emphasis is always given to adopting best practices, wide consultations, and effective dissemination of Markaz research.

Markaz renewed its policy research initiative with new areas of focus in collaboration with our research partner IFRI.

The effort on policy research initiative was further renewed in 2013 with new areas of focus in collaboration with our research partner IFRI, based in Paris. IFRI produced several policy papers in collaboration with Markaz in the area of energy and alternative energy. Markaz also engaged other policy research scholars during the year to generate research in the area of public sector reforms, labor market segmentation, etc. Several research ideas are in the pipeline for collaboration with research agencies and scholars.

The year also saw Markaz strengthening its research team at Marmore MENA Intelligence Pvt. Ltd, the research subsidiary based in Chennai (India). Marmore is committed to providing high quality research support to Markaz and serve external clients through its committed research team. For more details about Markaz research offerings, please visit Marmore website: www.e-marmore.com

Markaz continued during 2013 its efforts to enhance the Markaz collaboration with reputable local institutions through its dedicated team of Relationship Managers.

Private Banking

Markaz's Private Banking Department (PBD) continued during the year 2013 its strive to attend to the investment needs of Markaz's clients and to provide them with value added services that include reporting the latest developments in markets and the different sectorial and geographic classes of assets. The department has also participated in the development of a broad range of products.

The PBD, responsible for the institutional and banking relationships as well, continued during 2013 its efforts to enhance the Markaz collaboration with reputable local institutions through its dedicated team of Relationship Managers. In the regional arena, PBD concentrated on initiating new collaborations with financial institutions across GCC countries, with the aim of further developing its distribution channels to provide innovative products and solutions.

Markaz communications strategy employed conven-tional as well as modern communication approaches to ensure clear delivery of key messages.

Media and Communications

The Media and Communications Department continued enhancing Markaz brand awareness and ensured communication of Markaz's key messages are clearly delivered to stakeholders. The department's communication strategy employed conventional as well as modern communication approaches, particularly the online presence through activating different channels in the digital domain.

Markaz Corporate Social Responsibility (CSR) policy is deeply rooted in its business model and continues to support nonprofit activities related to sustainable development. Markaz focused on issues related to human/youth development, SMEs, public health and sports. For more details on Markaz communications activities, please visit our website: www.markaz.com

Markaz has a comprehensive risk management, compliance and control framework in place to ensure that the Company and its related entities are appropriately governed.

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, 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 performances and decisions; and the Board Audit Committee, which checks the effectiveness of internal controls. As part of its responsibilities, the department coordinates with regulatory auditors, internal auditors, and rating agencies.

DIRECTORS' REPORT 2013 (continued)

During the year 2013, as a part of its continuous improvement principle, the department has initiated a process of enhancing and updating its compliance and risk framework in line with best practices and new regulations to ensure enhanced monitoring and control over the compliance and risk management aspects of the business. Further, the department has been working on automation of controls and monitoring mechanism through the asset management software.

Information Technology

The Information Technology Department at Markaz has been working closely with other departments and vendors to develop the new asset management system, a major solution that will replace several key applications with a single point customized to Markaz's vast requirements.

The department plays an integral part of the business continuity plan by ensuring that the Disaster Recovery (DR) policies and procedures are applied at a company-wide level. These policies and procedures are designed and implemented according to the industry's standards and periodically reviewed by a top-tier consulting service.

Financial Management Department

The Financial Management Department (FMD) has established a stable and more effective financial management and control environment at Markaz through a dynamic process to implement International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). The process promptly responds to the constant changes and developments in the markets and information needs to investors.

Markaz now adopts IFRS in numerous transactions and accounting practices which helped in providing high quality, transparent, and comparable information in financial reports. Consequently, the reporting to Capital Market Authority (CMA) and other regulatory bodies had become more expedient and good corporate governance had been further strengthened.

Transaction Processing & Reporting Department

The TPR Department has implemented comprehensive operational controls to ensure that the Company provides safe and sound support for the administration of clients' accounts.

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 clients' accounts.

The TPR currently strives to achieve Markaz's 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 the financial year 2014.

Human Resources & Administration

HRA department established a "Performance Management Scheme" to provide Markaz with a complete HR model.

During 2013, the Human Resources and Administration Department (HRAD) at Markaz worked to enhance internal communication and to improve efficiency by promoting accountability. To this end, the HRAD established a "Performance Management Scheme" to provide Markaz with a complete HR model.

Within the newly established scheme, Markaz developed Key Performance Indicators (KPIs) for all employees and adopted a new Appraisal System based on these KPIs. Markaz's new HR model also included an improved recruitment process to enable the selection of high caliber candidates for all Markaz staffing requirements in a timely manner.

The HRAD also introduced a modified reward plan allowing recognition of high performers and addressing staff development in a more systematic approach to maximize the return of investment with regard to staff training and development. In addition, the HRAD continued to streamline and update related policies and procedures to ensure optimal performance and minimize operational risk.

Outlook

Markaz will continue reinforcing its competitive edge in the region by building its research capacities.

Throughout the years, knowledge has always been the mainstay of Markaz and its activities. Building on this characteristic, Markaz will continue reinforcing its competitive edge in the region by building research capacities in all categories of its assets on one hand and through investing in its human resources on the other hand.

While Markaz fully complies with laws and governance rules in all its operations, the rapid changes in the regulatory environment entail continuous development and amendment of procedures to ensure their conformity with the changing requirements. We, nevertheless, will take all necessary measures to reduce the impact of the regulatory changes on the efficiency of Markaz's operations and its abilities to invent investment solutions to overcome economic challenges.

Among the investment solutions dictated by the current investment climate is the revision of the balance between quoted securities and long term investments with stable income by raising the percentage of our asset allocation in fixed income instruments and real estate in the region and the USA, for example.

Markaz is actively seeking to expand its product range, and has funds under establishment pending regulatory approval.

In this respect, Markaz is actively seeking to expand its product range, and has funds under establishment pending regulatory approval. These funds will complement our existing product range, and will give our clients access to global equity markets, GCC shariah compliant equities, and GCC real estate.

In the field of financial services, the new companies' law and its executive regulations passed in 2013 will provide the sector with flexibility to enable companies to issue bonds and equity hybrids, which will support Markaz's activities in the debt market. Further, we will continue to focus on providing financial consultancy services to the medium-sized companies locally and regionally, in view of the high demand witnessed by this category of companies.

We look forward to proudly celebrate the 40th Anniversary of Markaz in the year 2014.

We look forward to proudly celebrate the 40th Anniversary of Markaz in the year 2014. Since its incorporation in the year 1974 as a financial institution, Markaz has overcome a number of regional and economic crises with remarkable consistency and growth. Markaz would have not achieved this sustainability without the trust placed by various institutions in our human capital and our core values which have comprised high governance standards, independence, dedication and transparency. In this respect, we extend our gratitude to our shareholders, investors and partners of different types for their support and reiterate to them our pledge to continue adhering to the professional codes we have always cherished.

Finally, we thank the family of Markaz for their constant efforts to maintain the position of Markaz as a financial institution that enjoys consistency and credibility. We also extend our appreciation to all the regulatory bodies represented by the Central Bank of Kuwait, the Capital Markets Authority, Kuwait Stock Exchange, and the Ministry of Commerce and Industry, as well as public and private sectors institutions for their cooperation and responsiveness towards our proposals, which serve the general interest.

The Board of Directors

March 06, 2014

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 2013, 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 2013, and their financial performance and cash flows for the year then ended 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 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, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year 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 2013, that might have had a material effect on the business of the Parent Company or on its financial position.

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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

24 February 2014

Consolidated Statement of Profit or Loss - Year ended 31 December 2013

	Notes	KD'000 31 December 2013	31 December 2012 Restated
Revenue			
Interest income	4	**1,277**	1,517
Dividend income		**545**	846
Management fees and commission	5	**6,438**	6,482
Gain on sale of investments at fair value through profit or loss		**921**	212
Change in fair value of investments at fair value through profit or loss	6	**3,387**	1,713
Gain on redemption/ sale of available for sale investments		**1,670**	2,781
Share of results of associate	16	**89**	-
Gain on sale of investment properties	17	**1,403**	-
Net rental income		**209**	178
Foreign exchange gain/ (loss)		**21**	(94)
Other income		**22**	2
		15,982	13,637
Expenses and other charges			
General and administrative expenses	7	**(6,743)**	(6,656)
Impairment of available for sale investments	15	**(207)**	(1,023)
Charge of provisions		**(70)**	(4)
Finance costs	8	**(1,058)**	(1,621)
		(8,078)	(9,304)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and directors' remuneration		**7,904**	4,333
Provision for contribution to KFAS	9	**(60)**	(40)
Provision for NLST	9	**(174)**	(114)
Provision for Zakat	9	**(70)**	(45)
Directors' remuneration		**(140)**	(91)
Profit for the year		**7,460**	4,043
Attributable to:			
Owners of the Parent Company		**6,231**	4,065
Non-controlling interests		**1,229**	(22)
		7,460	4,043
Basic and diluted earnings per share attributable to the owners of the Parent Company	10	**13 Fils**	8 Fils

The notes set out on pages 24 to 58 form an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income - Year ended 31 December 2013

	KD'000	
	31 December 2013	**31 December 2012 Restated**
Profit for the year	**7,460**	4,043
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	**4,556**	3,373
- Transferred to consolidated statement of profit or loss on sale	**(1,670)**	(2,781)
- Transferred to consolidated statement of profit or loss on impairment	**207**	1,023
Cash flow hedges		
- Net change in fair value arising during the year	**-**	243
Others		
- Exchange differences arising on translation of foreign operations	**28**	91
- Share of other comprehensive income of associate	**1**	-
Total other comprehensive income for the year	**3,122**	1,949
Total comprehensive income for the year	**10,582**	5,992
Total comprehensive income attributable to:		
Owners of the Parent Company	**9,312**	5,861
Non-controlling interests	**1,270**	131
	10,582	5,992

The notes set out on pages 24 to 58 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position - 31 December 2013

			KD 000's	
	Notes	31 December 2013	31 December 2012 Restated	1 January 2012 Restated
Assets				
Cash and bank balances	11	**3,833**	4,544	4,861
Time deposits	11	**3,517**	1,377	19,107
Investments at fair value through profit or loss	12	**42,949**	38,233	43,492
Accounts receivable and other assets	13	**3,517**	4,442	4,032
Short-term financing		**28**	42	878
Loans to customers	14	**8,248**	7,879	11,884
Available for sale investments	15	**58,856**	55,771	56,457
Investment in associate	16	**2,177**	-	-
Investment properties	17	**13,507**	20,117	11,093
Property and equipment		**403**	451	402
Total assets		**137,035**	132,856	152,206
Liabilities and equity				
Liabilities				
Due to banks and other financial institutions	11	-	3,484	-
Accounts payable and other liabilities		**5,856**	5,486	4,109
Bonds	18	**22,000**	22,000	49,896
Total liabilities		**27,856**	30,970	54,005
Equity				
Share capital	19	**53,130**	53,130	53,130
Share premium	20	**7,902**	7,902	7,902
Legal reserve	21	**14,114**	13,446	13,005
Voluntary reserve	21	**14,060**	13,392	12,951
Treasury shares	22	**(16,342)**	(16,342)	(16,342)
Treasury shares reserve		**7,973**	7,973	7,973
Other components of equity	24	**8,316**	5,235	3,439
Retained earnings		**7,095**	5,116	1,976
Equity attributable to the owners of the Parent Company		**96,248**	89,852	84,034
Non-controlling interests	25	**12,931**	12,034	14,167
Total equity		**109,179**	101,886	98,201
Total liabilities and equity		**137,035**	132,856	152,206

Diraar Yusuf Alghanim
Chairman

Manaf AbdulAziz Alhajeri
Chief Executive Officer

The notes set out on pages 24 to 58 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – YEAR ENDED 31 DECEMBER 2012 (RESTATED)

	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 (note 24)	Retained earnings	Sub Total	Non-controlling interests	Total
Balance at 1 January 2012 (as previously reported)	53,130	7,902	13,005	12,951	(16,342)	7,973	3,522	2,031	84,172	3,377	87,549
Effect of IFRS 10 adoption – (see note 3)	-	-	-	-	-	-	(83)	(55)	(138)	10,790	10,652
Balance at 1 January 2012 restated	53,130	7,902	13,005	12,951	(16,342)	7,973	3,439	1,976	84,034	14,167	98,201
Net change in non-controlling interests	-	-	-	-	-	-	-	-	-	(2,265)	(2,265)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(42)	(42)
Effect of changes in ownership percentage of subsidiaries	-	-	-	-	-	-	-	(43)	(43)	43	-
Transactions with owners	-	-	-	-	-	-	-	(43)	(43)	(2,264)	(2,307)
Profit/ (loss) for the year	-	-	-	-	-	-	-	4,065	4,065	(22)	4,043
Other comprehensive income	-	-	-	-	-	-	1,796	-	1,796	153	1,949
Total comprehensive income for the year	-	-	-	-	-	-	1,796	4,065	5,861	131	5,992
Transfer to reserves	-	-	441	441	-	-	-	(882)	-	-	-
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**

The notes set out on pages 24 to 58 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – YEAR ENDED 31 DECEMBER 2013

	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 (note 24)	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	-	-	-	-	-	-	-	(31)	(31)	31	-
Dividend paid	-	-	-	-	-	-	-	(2,885)	(2,885)	-	(2,885)
Transactions with owners	-	-	-	-	-	-	-	(2,916)	(2,916)	(373)	(3,289)
Profit/ (loss) 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**

The notes set out on pages 24 to 58 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS – YEAR ENDED 31 DECEMBER 2013

	Notes	KD'000 31 December 2013	31 December 2012 Restated
Operating Activities			
Profit for the year		**7,460**	4,043
Adjustments for:			
Dividend income		**(545)**	(846)
Interest income		**(1,277)**	(1,517)
Depreciation	7	**304**	221
Gain on redemption/ sale of available for sale investments		**(1,670)**	(2,781)
Impairment of available for sale investments		**207**	1,023
Gain on sale of investments properties		**(1,403)**	-
Reversal of provision for credit losses		**70**	(51)
Share of results of associate		**(89)**	-
Finance costs		**1,058**	1,621
Changes in operating assets and liabilities:			
Investments at fair value through profit or loss		**(4,716)**	5,259
Accounts receivable and other assets		**812**	(410)
Short term financing		**14**	845
Loans to customers		**(373)**	4,045
Accounts payable and other liabilities		**398**	1,899
Net cash from operating activities		**250**	13,351
Investing Activities			
Term deposit maturing after three months		**(7)**	3,946
Purchase of property and equipment		**(136)**	(198)
Proceeds from redemption/sale of available for sale investments		**6,041**	13,596
Purchase of available for sale investments		**(6,657)**	(13,715)
Purchase of investment properties	17	**(295)**	(5,192)
Proceeds from sale of investment properties		**8,188**	274
Dividend income received		**545**	846
Interest income received		**1,258**	1,517
Net cash from investing activities		**8,937**	1,074

The notes set out on pages 24 to 58 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS – YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

	Notes	KD'000 31 December 2013	31 December 2012 Restated
Financing Activities			
Dividends paid		**(2,847)**	(91)
Repayment of bonds		**-**	(27,896)
Finance costs paid		**(1,058)**	(1,807)
Net change in non-controlling interests		**(404)**	(2,265)
Dividend paid to non-controlling interest		**-**	(42)
Net cash used in financing activities		**(4,309)**	(32,101)
Foreign currency adjustments		**28**	91
Increase/(decrease) in cash and cash equivalents		**4,906**	(17,585)
Cash and cash equivalents at the beginning of the year		**2,380**	19,965
Cash and cash equivalents at the end of the year	11	**7,286**	2,380
Non-cash transactions			
Available for sale investments	15	**2,087**	4,178
Investment in associate	16	**(2,087)**	-
Investment properties	17	**-**	(4,178)

The notes set out on pages 24 to 58 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2013

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, investment and financial advisory services, private equity funds, mutual funds and real estate funds and real estate funds management, real estate investments, money market and foreign exchange deals.

The Companies Law issued on 26 November 2012 by Decree Law no 25 of 2012 (the "Companies Law"), which was published in the Official Gazette on 29 November 2012, cancelled the Commercial Companies Law No. 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Law No. 97 of 2013.

On 29 September 2013, Ministry of Commerce and Industry issued its regulation No. 425/2013 regarding the Executive by-laws of the Companies Law. All existing companies are required to comply with articles of these by-laws within one year from the date of its issuance.

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 2013 were authorised for issue by the Parent Company's board of directors on 9 February 2014 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 associate as disclosed in note in 2.11 below:

- **IFRS 7: Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendment) (effective for annual periods beginning on or after 1 January 2013)**

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The adoption of this standard does not have any material impact on the annual consolidated financial statements of the Group.

- **IFRS 10: Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013)**

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements' and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure or rights, to variable returns from its involvement with the investee and 3) the ability to use its power over the investee to affect the amount of the returns.

The management of the Group has reassessed its involvement in certain entities in accordance with IFRS 10 revised control definition and guidance. The effect and basis of application of IFRS 10 is disclosed in note 3.

Comparative amounts for 2012 and the related amounts as of 1 January 2012 have been restated in accordance with the relevant transitional provisions set out in IFRS 10.

- **IFRS 12 – Disclosure of Involvement with Other Entities (effective for annual periods beginning on or after 1 January 2013)**

The standard includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The objective of IFRS 12 is to disclose additional information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. The adoption of this standard has resulted in more extensive disclosures in the consolidated financial statements of the Group.

- **IFRS 13: Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)**

IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group has re-assessed its policies for measuring fair values. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures wherever required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. IFRS 13 disclosure requirements need not be applied to comparative information in the first year of application.

- **IAS 27 Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013)**

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities. . The adoption of this standard has not resulted in any impact on the financial position or performance of the Group.

- **IAS 1: Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendment) (effective for annual periods beginning on or after 1 July 2012)**

The amendments to IAS 1 change the Grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The adoption of this standard has no effect on the financial position or performance of the Group and only resulted in presentation changes in statement of profit or loss and other comprehensive income.

- **IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)**

As a consequence of the new IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The adoption of this standard has not resulted in any impact on the financial position or performance of the Group.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2013 did not have any material impact on the accounting policies, financial position or performance of the Group.

Annual Improvements 2009-2011

The Annual Improvements 2009-2011 (the Annual Improvements) made several minor amendments to a number of IFRSs. The amendments relevant to the group are summarised below:

Clarification of the requirements for opening statement of financial position:

- clarifies that the appropriate date for the opening statement of financial position is the beginning of the preceding period (related notes are no longer required to be presented)
- addresses comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8.

Clarification of the requirements for comparative information provided beyond minimum requirements:

- clarifies that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements
- requires that any additional information presented should be presented in accordance with IFRS and the entity should present comparative information in the related notes for that additional information.

Segment information for total assets and liabilities:

- clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (i) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; (ii)

2. Basis of preparation (continued)

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

Annual Improvements 2009-2011 (continued)

there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment.

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

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, other than from IFRS 9, on its consolidated financial position or performance.

- **IFRS 9: Financial Instruments: Classification and Measurement**

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, moved the mandatory effective date to 1 January 2015. On November 19, 2013, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 that introduced a new general hedge accounting and removed the 1 January 2015, mandatory effective date. The new hedge accounting model significantly differs from the IAS 39 hedge accounting model in a number of aspects including eligibility of hedging instruments and hedged items, accounting for the time value component of options and forward contracts, qualifying criteria for applying hedge accounting, modification and discontinuation of hedging relationships etc. Under the amendments, entities that adopt IFRS 9 (as amended in November 2013) can choose an accounting policy of either adopting the new IFRS 9 hedge accounting model now or continuing to apply the hedge accounting model in IAS 39 for the time being.

The Group's management have yet to assess the impact of this new standard on the group's consolidated financial statements. Management does not expect to implement IFRS 9 until it has been completed and its overall impact can be assessed.

- **Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)**

These amendments effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would have any material effect for the Group.

- **IAS 32: Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amendment)**

These amendments are effective for annual periods beginning on or after 1 January 2014.The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group is currently assessing the impact that this standard will have on the consolidated financial position and performance.

- **Recoverable Amount Disclosures for Non-Financial Assets (Amendment)**

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. Additional disclosures will be made by the Group when amendment becomes effective.

- **IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (Amendment)**

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014.

2.3 Basis of consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries (see note 3). The Parent Company a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through more than half of the voting rights. 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 (ie gain on a bargain purchase) is recognised in consolidated statement of profit or loss immediately.

2. Basis of preparation (continued)

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 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, payables, due to banks and other financial institutions 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/derecognition

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 derecognition 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”.

Financial assets at fair value through profit or loss

Financial assets classified as “at fair value through profit or loss” 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, short term financing, 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 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.

Due to banks and other financial institutions, accounts payable and other liabilities, 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 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.

2. Basis of preparation (continued)

2.8 Financial instruments (continued)

Fair values (continued)

For financial instruments carried at amortised cost, 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 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 at 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.

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

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

Derivative financial instruments used by the Group include foreign exchange forwards contracts and interest rate swaps.

Hedge accounting

The Group has designated its interest rate swaps as hedging instruments for cash flow hedges in order to mitigate interest rate risk arising from its bonds.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the consolidated statement of profit or loss in the periods when the hedged item is recognised in the consolidated statement of profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. When a forecast transaction is expected to occur, any gain or loss accumulated in equity at that time remains separately in equity and is recognised in the consolidated statement of profit or loss when the forecast transaction is ultimately recognised in the consolidated statement of profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the consolidated statement of profit or loss.

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 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.

2. Basis of preparation (continued)

2.13 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.

2.14 Fair value measurement of non –financial assets

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

A fair value measurement of a non-financial asset takes into account 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.

2.15 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.

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 investment 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:

2. Basis of preparation (continued)

2.22 Significant management judgments and estimation uncertainty (continued)

Classification of financial instruments

Judgements are made in the classification of financial instruments based on management's intention at acquisition. The Group classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making.

Classification of financial assets as fair value through statement of profit or loss depends on how management monitors the performance of these financial assets. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of consolidated statement of profit or loss in the management accounts, they are classified as fair value through profit or loss.

Classification of assets as loans and receivables depends on the nature of the asset. If the Group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

All other financial assets are classified as available for sale.

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 associates

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

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and equipment.

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. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

3. Subsidiaries

Name	Country of incorporation	Voting capital Held 31 December 2013	31 December 2012	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	**98.79%**	99.69%	Investment Fund
Markaz Arabian Fund	Bahrain	**55.06%**	52.7%	Investment Fund

The management of the Group has reassessed its involvement in the following entities in accordance with IFRS 10 revised control definition and guidance and has concluded that it exercises control over these entities.

- Aradi Development Limited
- Markaz Fixed Income Fund
- Markaz Arabian Fund

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 23,275,093 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 98.79% 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 55% 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.

The Group has accounted for the investments in these entities as subsidiaries and consolidated with retrospective effect in accordance with the requirements of IFRS 10. Comparative amounts for 31 December 2012 and the related amounts as of 1 January 2012 have been restated in accordance with the relevant transitional provisions set out in IFRS 10.

Markaz Fixed Income Fund and Markaz Arabian Fund were classified as financial assets under IAS 39 Financial Instruments: Recognition and measurement and were measured at fair value.

3. Subsidiaries (continued)

In addition to the above, the Group has consolidated the following companies, which were not consolidated in 2012.

- Markaz Real Estate Investment Company WLL
- Rimal Venture Company WLL

The aggregate impact on consolidation of these companies are given below:

Consolidated statement of profit or loss

	KD 000's 31 December 2012
Revenue	
Increase in interest income	**235**
Increase in dividend income	**460**
Decrease in management fees and commission	**(225)**
Increase in loss on sale of investments at fair value through profit or loss	**(134)**
Increase in fair value of investments at fair value through profit or loss	**123**
Increase in foreign exchange loss	**(11)**
	448
Expenses and other charges	
Increase in general and administrative expenses	**(622)**
	(622)
Decrease in profit for the year	**(174)**
Decrease in profit for the year attributable to:	
Owners of the Parent Company	**(58)**
Non-controlling interests	**(116)**
	(174)

Consolidated statement of total comprehensive income:

	KD 000's 31 December 2012
Decrease in profit for the year	**(174)**
Decrease in net change in fair value of available for sale investments	**(5)**
Increase in exchange differences on translation of foreign operations	**8**
	3
Decrease in total comprehensive income for the year	**(171)**
Decrease in total comprehensive income attributable to:	
Owners of the Parent Company	**(74)**
Non-controlling interests	**(97)**
	(171)

Assets, liabilities and equity as at 1 January 2012:

	KD 000's		
	1 January 2012 previously reported	IFRS 10 adoption adjustments	1 January 2012 Restated
Cash and bank balances	3,750	1,111	**4,861**
Investments at fair value through profit or loss	41,863	1,629	**43,492**
Accounts receivable and other assets	3,362	670	**4,032**
Available for sale investments	52,645	3,812	**56,457**
Investment properties	7,538	3,555	**11,093**
Property and equipment	394	8	**402**
Accounts payable and other liabilities	(3,976)	(133)	**(4,109)**
Total effect on net assets	105,576	10,652	**116,228**
Other components of equity	3,522	(83)	**3,439**
Retained earnings	2,031	(55)	**1,976**
Non-controlling interests	3,377	10,790	**14,167**
Total effect on equity	8,930	10,652	**19,582**

Assets, liabilities and equity as at 31 December 2012:

	KD 000's		
	31 December 2012 Previously reported	IFRS 10 adoption adjustments	31 December 2012 Restated
Cash and bank balances	3,827	717	**4,544**
Investments at fair value through profit or loss	39,033	(800)	**38,233**
Accounts receivable and other assets	3,897	545	**4,442**
Available for sale investments	51,567	4,204	**55,771**
Investment properties	16,479	3,638	**20,117**
Property and equipment	435	16	**451**
Accounts payable and other liabilities	(4,833)	(653)	**(5,486)**
Total effect on net assets	110,405	7,667	**118,072**
Other components of equity	5,333	(98)	**5,235**
Retained earnings	5,272	(156)	**5,116**
Non-controlling interests	4,113	7,921	**12,034**
Total effect on equity	14,718	7,667	**22,385**

Consolidated statement of cash flows:

	KD 000's		
	31 December 2012 Previously reported	IFRS 10 adoption adjustments	31 December 2012 Restated
Net cash flow from operating activities	**10,995**	2,356	13,351
Net cash flow from investing activities	**1,018**	1,814	2,832
Net cash flow from financing activities	**(29,204)**	(4,564)	(33,768)
Net cash flow	**(17,191)**	(394)	(17,585)

The aggregate impact on basic and diluted earnings per share is disclosed in note 10.

4. Interest income

From:	KD'000 31 December 2013	KD'000 31 December 2012 Restated
Time deposits	**28**	140
Investments at fair value through statement of profit or loss	**251**	299
Available for sale investment	**643**	390
Short-term financing	**1**	122
Loans to customers	**354**	566
	1,277	1,517

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 2013	KD'000 31 December2012 Restated
Change in fair value of trading securities	**2,471**	**675**
Change in fair value of investments designated as investments at fair value through statement of profit or loss	**916**	**1,038**
	3,387	**1,713**

7. General and administrative expenses

	KD'000 31 December 2013	KD'000 31 December 2012 Restated
Staff costs	**4,275**	3,792
Depreciation	**304**	221
Other expenses	**2,164**	2,643
	6,743	6,656

8. Finance costs

	KD'000 31 December 2013	KD'000 31 December 2012 Restated
Bonds	**1,051**	1,327
Short term borrowings	**-**	106
Due to banks and other financial institutions	**7**	188
	1,058	1,621

All the finance costs during the year relate to financial liabilities stated at amortised cost.

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 2013	31 December 2012 Restated
Profit for the year attributable to the owners of the Parent Company (KD '000)	**6,231**	**4,065**
Weighted average number of shares in issue during the year (excluding treasury shares)	**480,802**	**480,802**
Basic and diluted earnings per share attributable to the owners of the Parent Company	**13 Fils**	**8 Fils**

The following table summarises the aggregate effect of adoption of IFRS 10 on the basic and diluted earnings per share (note 3).

		31 December 2012
	Decrease in profit attributable to the owners of the Parent Company	Decrease in basic and diluted earnings per share
Adoption of IFRS 10	**(58)**	(0.12) 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 2013	31 December 2012 Restated
Cash and bank balances	**3,833**	**4,544**
Time deposits	**3,517**	**1,377**
Total cash and cash equivalents	**7,350**	**5,921**
Less: Time deposits maturing after three months	**(64)**	**(57)**
Less: Due to banks and other financial institutions	**-**	**(3,484)**
Cash and cash equivalent for statement of cash flow	**7,286**	**2,380**

The Group's time deposits yield interest at an average interest rate of 0.47% (2012: 1.05%) per annum.

The Group has a USD 25,000 thousand 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 2013, the Group had no drawn amount from this facility (31 December 2012: USD 10,594 thousand equivalent to KD 2,984 thousand) of this facility.

12. Investments at fair value through profit or loss

	KD '000	
Trading:	**31 December 2013**	**31 December 2012 Restated**
Local quoted securities	-	**232**
Foreign quoted securities	**14,065**	**10,271**
	14,065	**10,503**
Designated on initial recognition:		
Local managed funds	**23,357**	**22,584**
Foreign quoted securities	**1,792**	**1,427**
Fixed income securities	**3,735**	**3,719**
	28,884	**27,730**
	42,949	**38,233**

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% (2012: 4.75% to 10.75%) per annum.

Fixed income securities with a carrying value of KD 3,200 thousand (2012: KD 3,184 thousand) are secured against the bank overdraft facility (note 11).

13. Accounts receivable and other assets

	KD'000	
	31 December 2013	**31 December 2012 Restated**
Management fees and commission receivable	**795**	1,307
Interest receivable	**236**	217
Rent receivable	**327**	178
Receivable from sale of investments	**895**	1,630
Prepayments	**293**	350
Others	**971**	760
	3,517	4,442

14. Loans to customers

	KD'000	
	31 December 2013	**31 December 2012**
Commercial loans	**3,525**	2,198
Personal loans	**5,285**	6,239
	8,810	8,437
Provision for credit losses	**(562)**	(558)
	8,248	7,879

The maturity profile of loans to customers are as follows:

	KD'000	
	31 December 2013	**31 December 2012**
Up to one month	**1,625**	1,172
Between one month and six months	**939**	487
Between six months and one year	**3,688**	5,723
Over one year	**2,079**	576
Non-performing loans (fully impaired)	**479**	479
	8,810	8,437

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 479 thousand (2012: KD 479 thousand).

The interest rate on loans to customers ranges between 4.50% to 6.00% (2012: 4.50% to 6.00%) per annum for commercial loans and between 2.00% to 6.00% (2012: 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 2013	**31 December 2012 Restated**
Quoted securities	**13,816**	12,149
Unquoted securities and funds	**832**	809
Managed funds	**20,826**	17,967
Equity participation	**15,858**	17,197
Debt instruments	**7,524**	7,649
	58,856	55,771

Fair value of investments in equity participations are determined mostly net assets value provided by the investment managers and the management believes that this represents the best estimate of fair value available for these investments.

During the year, the Group recognised an impairment loss of KD 207 thousand (2012: KD 1,023 thousand) in respect of certain available for sale investments. Management has performed an analysis of the underlying investments which indicate that there is no further impairment.

Investments in debt instrument amounting to KD 2,493 thousand (2012: KD 2,531 thousand) are secured by charges over real estate properties.

Debt instruments include a syndicated murabaha for KD 4,988 thousand (2012: KD 4,997 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. The facility carries effective profit rate of 5% (2012: 5%) and matures on 10 August 2015.

16. Investment in associate

Details of the Group's associate is as follows:

Name	Country of incorporation	Proportion of ownership interest held by the Group 31 December 2013	Proportion of ownership interest held by the Group 31 December 2012	Purpose
First Equilease for Equipment and Transportation Company KSC (FEETC)	Kuwait	17.22%	17.22%	Transportation and Leasing

During the year, the Group reclassified its investment amounting to KD 2,087 thousand, representing 17.22% ownership interest in FEETC from available for sale investment to investment in associate. The Group classified this investment as investment in associate because it is now able to exercise significant influence over the operations of associate as it has two representatives on the board of directors of the associate.

Reclassification of previously held available for sale investments resulted in a gain of KD 291 thousand. The reclassification of the investment as an associate did not result in any goodwill or gain on bargain purchase.

The summarised financial information of FEETC is as below:

	KD 000's 31 December 2013
Current assets	**10,823**
Non-current assets	**2,467**
Current liabilities	**(109)**
Non- current liabilities	**(222)**
Non-controlling interest of associate	**(318)**
Net assets	**12,641**
Revenue	**3,112**
Profit for the year	**601**
Other comprehensive income for the year	**7**

No dividend was received from the associate during the year.

The carrying value of the associate is arrived at as below:

	KD 000's 31 December 2013
Net assets of the associate	**12,641**
Proportion of Group's ownership	**17.22%**
Carrying amount of the Group's interest in FEETC	**2,177**

17. Investment properties

The movement in investment properties for the year is as follows:

	KD'000		
	Land	**Building**	**Total**
Cost			
1 January 2012	8,750	2,343	11,093
Additions	4,990	202	5,192
Transfer from available for sale investments	-	4,178	4,178
Disposals	-	(274)	(274)
31 December 2012 (Restated)	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
Depreciation			
Charge for the year 2012	-	74	74
Disposals	-	(2)	(2)
31 December 2012 (Restated)	-	72	72
Charge for the year 2013	-	120	120
Disposals	-	(21)	(21)
31 December 2013	-	171	171
Net book value			
31 December 2012 (Restated)	13,740	6,377	20,117
31 December 2013	7,696	5,811	13,507

During the year, the Group sold one of its investment properties located in Kuwait for a total consideration of KD 5,850 thousand resulting in a profit of KD 944 thousand.

As at 31 December 2013, the fair value of the investment properties is KD 18,674 thousand. Investment property was revalued by an independent valuer 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 Groups investment properties are located as below:

	KD'000	
	31 December 2013	**31 December 2012 Restated**
North America	**5,811**	6,377
GCC	**7,696**	13,740
	13,507	20,117

18. 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.

19. Share capital

	KD'000	
	31 December 2013	**31 December2012**
Authorised issued and fully paid shares of 100 Kuwait Fils each	**53,130**	53,130

20. Share premium

Share premium is not available for distribution.

21. Reserve

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

There are no restrictions on distribution of voluntary reserve.

22. Treasury shares

	31 December 2013	**31 December 2012**
Number of shares	**50,498**	50,498
Percentage of issued shares	**9.5%**	9.5%
Cost (KD '000)	**16,342**	16,342
Market value (KD '000)	**7,676**	6,060

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.

23. Proposed dividend

The Board of Directors of the Parent Company has proposed a cash dividend of 10 fils per share amounting to KD 4,808,017. 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 19 March 2013 approved the audited consolidated financial statements of the Group for the year ended 31 December 2012 and declared cash dividend of 6 Fils per share which were paid in 2013 following that approval.

24. Other components of equity

	KD '000 Fair value reserve	Foreign currency translation reserve	Cash flow hedging reserve	Total
Balance at 1 January 2012 (Previously reported)	3,808	(43)	(243)	3,522
Adjustments on adoption of IFRS 10	(67)	(16)	-	(83)
Balance at 1 January 2012 (Restated)	3,741	(59)	(243)	3,439
Available for sale investments				
Net change in fair value arising during the year	3,273	-	-	3,273
Transferred to consolidated statement of profit or loss on sale	(2,781)	-	-	(2,781)
Transferred to consolidated statement of profit or loss on impairment	1,023	-	-	1,023
Exchange differences arising on translation of foreign operations	-	38	-	38
Cash flow hedging				
Net change in fair value arising during the year	-	-	243	243
Total other comprehensive income	1,515	38	243	1,796
Balance at 31 December 2012 (Restated)	5,256	(21)	-	5,235
Balance at 1 January 2013 (Restated)	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**

25. 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	
	2013	2012	2013	2012 Restated	2013	2012 Restated
MDI Holding Limited	**33.34%**	33.34%	**14**	16	**284**	295
MDI Management Limited	**33.34%**	33.34%	**82**	(39)	**1,003**	894
MDI Ventures Ltd	**50%**	50%	**(13)**	123	**2,914**	2,901
Aradi Development Limited	**80%**	80%	**(32)**	(442)	**3,378**	3,390
Markaz Arabian Fund	**44.94%**	47.30%	**1,176**	321	**5,287**	4,532
Individually immaterial subsidiaries with non- controlling interests			**2**	(1)	**65**	22
Total			**1,229**	(22)	**12,931**	12,034

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

	KD 000's				
	Year ended 31 December 2012				
	MDI Holding Limited	**MDI Management Limited**	**MDI Ventures Ltd**	**Aradi Development Limited**	**Markaz Arabian Fund**
Current assets	98	212	359	7	9,640
Non current assets	802	2,647	5,460	4,848	-
Current liabilites	(15)	(177)	(16)	(618)	(59)
	885	2,682	5,803	4,237	9,581
Equity attributable to:					
- Owners of the Parent Company	590	1,788	2,902	847	5,049
- Non controlling interests	295	894	2,901	3,390	4,532
	885	2,682	5,803	4,237	9,581
Revenue	59	40	397	1	933
Expenses	(11)	(156)	(151)	(553)	(254)
Profit/ (loss) for the year	48	(116)	246	(552)	679
Profit/ (loss) attributable to:					
- Owners of the Parent Company	32	(77)	123	(110)	358
- Non controlling Interests	16	(39)	123	(442)	321
	48	(116)	246	(552)	679
Other comprehensive income attributable to:					
- Owners of the Parent Company	143	70	29	9	(21)
- Non controlling Interests	72	35	29	37	(19)
	215	105	58	46	(40)
Total comprehensive attributable to:					
- Owners of the Parent Company	175	(7)	152	(101)	337
- Non controlling Interests	88	(4)	152	(405)	302
	263	(11)	304	(506)	639
Net cash flow from operating activities	(12)	5	(222)	(23)	1,700
Net cash flow from investing activities	75	154	(5,287)	(14)	-
Net cash flow from financing activities	(58)	(69)	5,589	24	(1,927)
Net cash flow	5	90	80	(13)	(227)

26. 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 2013	**31 December 2012 Restated**
Transactions included in the consolidated statement of profit or loss:		
Interest income on loans and short term financing	**105**	513
Management fees and commission	**5,111**	4,987
	5,216	5,500
Key management compensation:		
Salaries and other short-term benefits	**645**	639
Terminal benefits	**58**	67
Directors remuneration	**140**	91
	843	797
Balances included in the consolidated statement of financial position:		
Short-term financing	**28**	42
Loans to directors and senior management	**1,372**	2,297
Loans to other related parties	**-**	2,176
Management fees and commission receivable	**480**	879
	1,880	5,394

27. 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

	Asset Management		Investment Banking		Total	
		KD'000		KD'000		KD'000
	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
Segment income	**13,560**	10,611	**2,422**	3,026	**15,982**	13,637
Segment profit	**6,948**	3,378	**956**	955	**7,904**	4,333
KFAS, NLST, Zakat and directors remuneration	**(376)**	(229)	**(68)**	(61)	**(444)**	(290)
Profit for the year	**6,572**	3,149	**888**	894	**7,460**	4,043
Total segment assets	**103,104**	101,295	**33,931**	31,561	**137,035**	132,856
Total segment liabilities	**17,749**	19,329	**10,107**	11,641	**27,856**	30,970
Depreciation	**(172)**	(117)	**(132)**	(104)	**(304)**	(221)
Impairment of available for sale investments	**(207)**	(489)	**-**	(534)	**(207)**	(1,023)
Purchase of property and equipment	**(40)**	(29)	**(96)**	(169)	**(136)**	(198)
Purchase of investment properties	**(295)**	(5,192)	**-**	-	**(295)**	(5,192)

Segment income above represents income generated from external customers. There was no inter-segment income in the year (2012: Nil).

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

28. 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 2013 amounted to KD 975,159 thousand (2012: KD 883,071 thousand). The Group earned management fee of KD 5,518 thousand (2012: KD 5,377 thousand) from these activities.

29. Contingent liabilities and commitments

		KD '000
	31 December 2013	31 December 2012
Commitments for purchase of investments	**4,698**	5,660

30. 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.

Derivatives are carried at fair value. The derivatives held for trading are given below:

	31 December 2013 KD'000			31 December 2012 KD'000		
	Assets	Liabilities	Contractual amounts	Assets	Liabilities	Contractual amounts
Held for trading:						
Forward foreign exchange contracts	-	**31**	**8,914**	-	23	7,018

31. 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 equity 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.

31.1 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% (2012: 2%) higher/lower, the effect on the profit and equity for the year ended 31 December would have been as follows:

	31 December 2013			31 December 2012 Restated		
	%		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%**	**-**	**-**	2%	6	-
Other stock exchange	**2%**	**266**	**-**	2%	200	-

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.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Financial liabilities		Financial assets	
	KD'000		KD'000	
	31 December 2013	31 December 2012 Restated	31 December 2013	31 December 2012 Restated
US Dollars	**727**	551	**54,016**	48,107
Euros	**4**	3	**3,806**	3,123
Sterling Pounds	**1**	1	**97**	94
Bahraini Dinars	**-**	-	**367**	376
UAE Dirhams	**-**	-	**470**	335
Qatari Riyals	**-**	-	**533**	272
Others	**5**	6	**4,105**	1,474

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% (2012: 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 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Profit for the year	**478**	444	**(478)**	(444)
Equity	**673**	576	**(673)**	(576)

This is as a result of the changes in fair value of available for sale investments.

c) Interest rate risk

The Group is exposed to interest rate risk as it borrows funds at both fixed and 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% (2012: + 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 2013 KD'000		**31 December 2012 KD'000**	
	+1%	**-1%**	+1%	-1%
Profit for the year	**69**	**(69)**	96	(96)

31.2 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.

31. Financial risk management objectives (continued)

31.2 Credit risk management (continued)

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:

	Carrying amount KD'000	
	31 December 2013	**31 December2012 Restated**
Bank balances	**3,831**	4,543
Time deposits	**3,517**	1,377
Accounts receivable and other assets	**3,222**	4,090
Investments at fair value through profit or loss	**27,092**	26,303
Short term financing	**28**	42
Loans to customers	**8,248**	7,879
Available for sale investments	**28,350**	25,616
	74,288	69,850

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

	Carrying amount KD'000	
	31 December 2013	**31 December 2012 Restated**
Kuwait	**55,212**	50,261
North America	**9,680**	10,279
GCC	**2,296**	2,703
Europe	**5,665**	5,690
MENA	**208**	270
Others	**1,227**	647
	74,288	69,850

Loans and advances of KD 479 thousand (2012: 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.

31.3 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.

	Upto 1 month	Upto 1-3 months	3-12 months	1 to 5 years	Total	Weighted average effective interest rate
31 December 2013					**KD'000**	**%**
Financial liabilities						
Accounts payable and other liabilities	2,489	486	1,226	-	4,201	
Bonds	-	-	1,051	24,102	25,153	4.5% to 5%
	2,489	**486**	**2,277**	**24,102**	**29,354**	
Commitments	-	-	-	4,698	**4,698**	
31 December 2012 (Restated)						
Financial liabilities						
Due to banks and other financial institution	3,484	-	-	-	3,484	1%
Accounts payable and other liabilities	1,633	1,039	721	-	3,393	
Bonds	-	-	1,051	25,153	26,204	5%
	5,117	1,039	1,772	25,153	33,081	
Commitments	-	-	-	5,660	5,660	

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

31 December 2013	KD'000 Up to one year	More than one year	Total
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	3,319	198	**3,517**
Short term financing	28	-	**28**
Loans to customers	6,190	2,058	**8,248**
Available for sale investments	-	58,856	**58,856**
Investment in associate	-	2,177	**2,177**
Investment properties	-	13,507	**13,507**
Property and equipment	-	403	**403**
	59,836	77,199	**137,035**
Liabilities			
Accounts payable and other liabilities	4,236	1,620	**5,856**
Bonds	-	22,000	**22,000**
	4,236	23,620	**27,856**

31. Financial risk management objectives (continued)

	KD'000		
	Up to one year	More than one year	Total
31 December 2012 Restated			
Assets:			
Cash and bank balances	4,544	-	4,544
Time deposits	1,377	-	1,377
Investments at fair value through profit or loss	38,233	-	38,233
Accounts receivable and other assets	4,256	186	4,442
Short term financing	42	-	42
Loans to customers	7,308	571	7,879
Available for sale investments	-	55,771	55,771
Investment properties	-	20,117	20,117
Property and equipment	-	451	451
	55,760	77,096	132,856
Liabilities			
Due to banks and other financial institutions	3,484	-	3,484
Accounts payable and other liabilities	4,081	1,405	5,486
Bonds	-	22,000	22,000
	7,565	23,405	30,970

32. 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 2013 and 2012 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 2013	KD'000			
	Level 1	Level 2	Level 3	Total
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				
- GCC	-	-	535	535
- Europe	3,200	-	-	3,200
Derivative financial liabilities forward 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	8,891	101,774

32. Financial instruments measured at fair value (continued)

	KD'000			
	Level 1	Level 2	Level 3	Total
31 December 2012 - Restated				
Investments at fair value through profit or loss				
Quoted securities				
- Listed in GCC	10,503	-	-	10,503
- Listed in Europe	25	-	-	25
- Listed in the United States of America	1,402	-	-	1,402
Funds				
- GCC	-	22,584	-	22,584
Fixed income securities				
- GCC	-	-	535	535
- Europe	3,184	-	-	3,184
Derivative financial liabilities forward held for trading	-	(23)	-	(23)
Available for sale investments				
Quoted securities and funds				
- Listed in GCC	550	-	-	550
- Listed in Europe	5,993	-	-	5,993
- Listed in the United States of America	5,606	-	-	5,606
Funds				
- GCC	-	10,816	-	10,816
- Europe		2,058		2,058
- United States of America	-	4,710	-	4,710
- Others		383		383
Debt instruments				
- GCC	-	-	5,118	5,118
- United States of America	-	-	2,531	2,531
Equity participations and other investments				
- GCC	-	3,193		3,193
- Europe	-	1,402		1,402
- United States of America	-	4,340		4,340
- Others	-	8,262		8,262
Unquoted securities				
- GCC	-	-	182	182
- Europe	-	-	627	627
	27,263	57,725	8,993	93,981

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 2013	2012 Restated	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	15,857	11,930	1	Quoted bid prices	N/A	N/A
Funds	23,357	22,584	2	NAV basis	N/A	N/A
Fixed income securities	3,735	3,719	1 & 3	Quoted prices and discounted cash flows	Interest rate	Higher the interest rate, lower the value
Derivative financial liabilities	(31)	(23)	2	Discounted cash flows, estimated based on observable foreign exchange rates	N/A	N/A
Available for sale investments						
Quoted securities	13,816	12,149	1	Quoted bid prices	N/A	N/A
Unquoted securities	832	809	3	Discounted cash flows	Cash flow estimate and discount rate	Higher estimated cash flows and lower discount rates, results in higher fair value
Funds	20,826	17,967	2	NAV Basis	N/A	N/A
Debt instruments	7,524	7,649	3	Discounted cash flow	Interest rate	Higher the interest rate, lower the value
Equity Participation	15,858	17,197	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:

32. Financial instruments measured at fair value (continued)

	KD'000		
31 December 2013	**Investments at fair value through profit or loss**	**Available for sale investments**	**Total**
Opening balance	**535**	**8,458**	**8,993**
Sales	**-**	**(125)**	**(125)**
Gain recognised in other comprehensive income	**-**	**23**	**23**
Closing balance	**535**	**8,356**	**8,891**
31 December 2012 – Restated			
Opening balance	3,246	5,610	8,856
Purchases	535	-	535
Debt instrument additions	-	7,178	7,178
Sales	(3,246)	(591)	(3,837)
Transfer from debt instruments to investment properties	-	(4,178)	(4,178)
Gains or losses recognised in:			
- Consolidated statement of profit or loss	-	162	162
- Other comprehensive income	-	277	277
Closing balance	535	8,458	8,993

Gains or losses recognized in the consolidated statement of profit or loss for the year are included in gain on sale of investments at fair value through profit or loss, change in fair value of investments at fair value through profit or loss and gain on sale of available for sale investments.

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.

33. 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.

34. 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 19, 20, and 21 respectively, treasury shares as disclosed in note 22 and retained earnings. Debt consists of bonds disclosed in note 18.

Gearing ratio

The gearing ratio at year end was as follows:

	KD'000	
	31 December 2013	**31 December 2012 Restated**
Debt	**22,000**	22,000
Less: Cash and cash equivalents (see note 11)	**(7,286)**	(2,380)
Net debt	**14,714**	19,620
Equity attributable to the owners of the Parent Company	**96,248**	89,852
Net debt to equity ratio	**15.29%**	21.84%

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