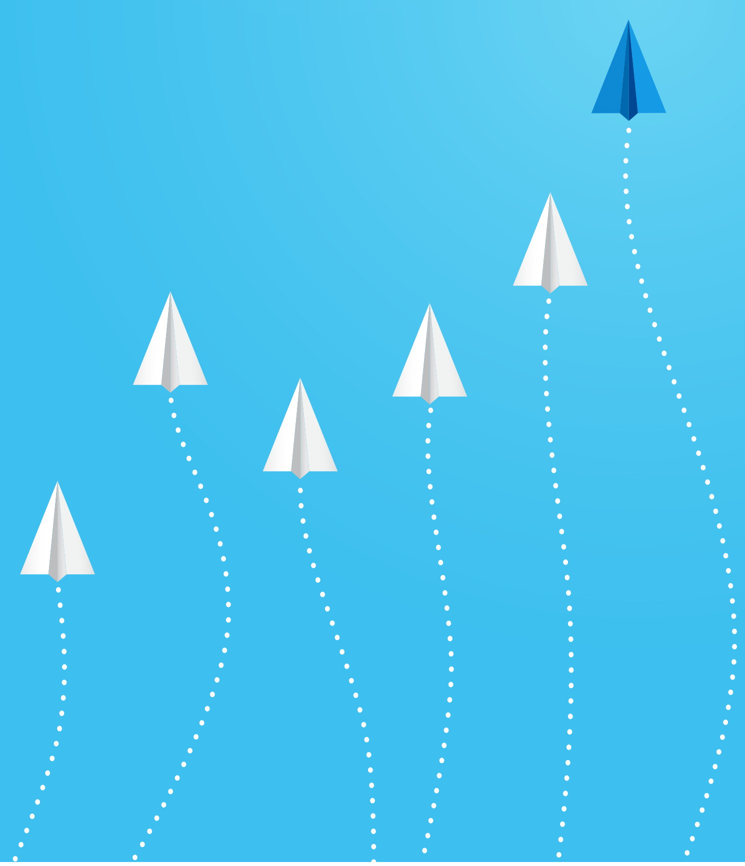
المركز
MARKAZ

Annual Report 2017



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H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait

H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
Crown Prince of the State of Kuwait

H.H. Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah
Prime Minister of the State of Kuwait

About Markaz

Established in 1974, Kuwait Financial Centre 'Markaz' is one of the leading asset management and investment banking institutions in the MENA region. Since inception Markaz has attracted and retained a client base of high net worth individuals, governments, quasi-government institutions, and corporations. The Company caters to its client base through the following products and services:

Asset Management
- Equity Mutual Funds
- Fixed Income Mutual Funds
- Real Estate Mutual Funds
- Portfolio Management

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

Real Estate
- Middle East and North Africa
- International

Research
- Economic and Policy Research
- Consulting Services

Markaz has a team of over 150 employees with offices across the Middle East, the US and India. The company was listed on Boursa Kuwait in 1997.

Vision

The choice for wealth creation

Mission

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

Our Principles

Its about the client, not us
We are in the business of meeting client objectives. We will never stop adding value to our clients by providing services of the highest quality and ethics, advising them on proper asset allocation and offering them the products that best meet their needs.

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

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

Our Journey

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

Markaz over the years

The Past

The 70s

- Offered foreign exchange services
- Launched loan services
- Established the first merchant bank in Korea
- Launched trade finance services

The 80s

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

The 90s

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

Today

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

Board of Directors

Mr. Diraar Yusuf Alghanim
Chairman

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

Sheikh Humoud Sabah Al-Sabah
Vice Chairman

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

Mr. Faisal AbdulAziz Al-Jallal
Director

Mr. Al-Jallal is the Chairman of the Board Audit Committee. He is the Managing Director of Al-Baseet Trading Company. Mr. Al-Jallal holds a University Degree from Alexandria University.

Mr. Ayman Abdulatif Alshaya
Director

Mr. Alshaya is also a board member of Alshaya Group, a Kuwaiti family businesses founded in 1890, and CEO of its Trading Division since 1989.
He is also Vice Chairman of Al Ahleia Insurance Company. Mr. Alshaya holds a Bachelor's Degree in Mechanical Engineering from Kuwait University.

Mr. Fahad Yaqoub Al-Jouan
Director

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

Audit Committee   Steering Committee   Nominations & Remunerations Committee   Risk Management Committee

Mr. Fouzi Ebrahim Al-Mukaimi
Director

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

Mr. Adel M. AlGhannam
Director

Mr. Alghannam is the Board Member and Director Manager for Kapico Group Holding Co. since 2003 and Board Member of Al Ahleia Insurance Company. Mr. Alghannam holds Bachelor's degree in Business Administration, USA.

Maha Abdulsalam Emad
Board Secretary

Mrs. Emad joined Markaz in 1997, and currently manages "Corporate Affairs and Fund Administration Department". Before joining Markaz, she worked for seven years in the Credit Department at Bank Med in Lebanon.
Holder of Bachelor of Science in Business Management from Lebanese American University – Beirut.

Executive Management

Manaf A. Alhajeri
Chief Executive Officer

Ali H. Khalil
Chief Operating Officer

Khaled A. Chowdhury
Chief Financial Officer

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

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

M.R. Raghu
Executive Vice President, Published Research

Maha A. Emad
Executive Vice President, Corporate Affairs & Fund Administration

Rasha A. Othman
Senior Vice President, Investment Banking (Fixed Income & Capital Markets)

Sohail F. Ladha
Senior Vice President, Investment Banking (Advisory)

Top Awards & Accolades

Hussein A. Zeineddin
Senior Vice President,
Management Information Systems & Operations, Risk Management

Abdullatif W. Al-Nusif
Senior Vice President,
Private Banking

Hana A. Al-Zeraie
Senior Vice President,
Human Resources & Administration

Alrazi Y. Al-Budaiwi
Vice President,
Media & Communications

Deena Y. Al-Refai
Vice President,
Investor Relations

Chairman's Letter

Dear Stakeholders,

On behalf of the Board of Directors, I am pleased to present our 43rd Annual Report for the year 2017. It was a year of sustained growth and resilience, despite challenging market conditions. Our performance was a function of management's ability to identify market opportunities, invest in enduring client relationships and implement prudent financial controls. The shareholders of Markaz and other stakeholders have consistently inspired us to achieve new milestones of success. We are looking to move forward driven by our fundamental strengths and innovation led approach.

As I reflect on the previous year, there have been major developments in the global economic landscape. Although geopolitical issues have continued to influence the global economy, business activity in 2017 continued the upswing that was started in the second half of 2016. The global economy continued to gain momentum last year with a rebound in manufacturing activity in the US coupled with a resilient performance in Europe. Overall, leading economies have been able to continue to reduce unemployment and improve productivity while keeping inflation in balance. Furthermore, emerging markets particularly in Asia delivered consistent economic growth in a relatively low interest rate environment. One of the key positives for commodity exporting countries has been the shift in focus from crisis management to diversified growth.

However, GCC economic growth remained subdued during the year. Although some acceleration in non-oil sector activity was noted, which was largely on account of the previous year's low base, the relatively low oil price and Government budget deficits continued to weigh down the overall region's growth. Capital markets activity experienced low liquidity and high volatility during the first half of 2017. This was followed by a period where GCC capital markets performance started to improve, with strong momentum across fixed income and Sukuk markets, while equity markets performed moderately. GCC governments continued to tap into both domestic and international debt markets, supporting their financing plans amid prolonged low oil prices. Although GCC equity markets ended 2017 slightly up, the S&P Pan Arab Index rose 4.5% y-o-y.

"Institutional investors are increasingly seeking tailored products that enable them to achieve performance with stability."

In our core home market, the State of Kuwait started to develop oil & gas projects that form a key part of its long-term sustainability policy to boost hydrocarbon capacity in anticipation of rising global energy demand. Furthermore, acknowledging the regional challenges, the Central Bank of Kuwait continued to support private sector development through a largely accommodative fiscal policy over the course of 2017. This enabled the credit rating firm Fitch to affirm a stable outlook and "AA" rating on the country's sovereign wealth funds. In particular, Kuwait's exceptionally strong fiscal metrics and low breakeven point for oil pricing were well acknowledged.

During the year, the most notable development for Boursa Kuwait was the inclusion of Kuwait into the secondary emerging market index by FTSE Russel in September 2017. While commending this important step, Kuwait's financial markets need to foster an environment that encourages innovation and delivers a diverse range of financial instruments Markaz has always been at the forefront of financial innovation in the region. As an example of this, the Forsa Financial Fund - conceptualized, established and managed by Markaz - was the first and only options market maker in the GCC since 2005. However, despite the advanced nature of this financial product, the limitations of the market structure severely constrained the growth of the fund. The overall market would benefit from a more innovation friendly environment with an array of sophisticated financial instruments that could add depth and attract liquidity. Year after year, Markaz has succeeded in developing new concepts and innovations through the creation of new investment channels, each with unique characteristics, in order to meet investor requirements. Examples of this include launching Mumtaz - the first domestic mutual fund, Idikhar - the first money market fund in Kuwait and MREF - the first real estate investment fund.

In 2017, Markaz continued to manage part of the National Real Estate portfolio, owned by the Kuwait Investment Authority (KIA), with a maximum value of KD 250 million. The fact that Markaz is the only company in Kuwait that is entrusted by a sovereign wealth fund to manage its real estate as well as other equity investments in Kuwait and the MENA region reaffirms the vital role of Markaz as a market leader.

With the financial markets and investment landscape undergoing structural changes, institutional investors are increasingly seeking tailored products that enable them to achieve performance with stability. Markaz is optimally positioned to adapt to changing customer needs and to provide effective solutions in today's volatile environment and for the emerging financial markets of tomorrow. Our diversified business portfolio has been shaped by a seasoned leadership team that continues to innovate towards better investment solutions and deepening our product expertise.

Despite such a complex backdrop, Markaz's revenues during 2017 increased by 11% while earnings attributable to shareholders increased by 10% on a y-o-y basis. Net profit growth was mainly driven by a favourable market sentiment in Kuwait, positively impacting the asset management business despite a slight decline in real estate values regionally. During the year, our investment banking division successfully executed many of the high profile M&A and Capital Markets transactions in the local market. Markaz is the leading and most trusted advisor of choice for both local and international corporates in Kuwait for advisory transactions.

In 2017 Markaz, through Marmore MENA Intelligence, a research subsidiary of Markaz, collaborated with the Kuwait Foundation for the Advancement of Science (KFAS) and completed two extensive Knowledge Economy research projects. Markaz also continued its partnership with the Kuwait Direct Investment Promotion Authority (KDIPA), which was initiated with the inauguration of the "GE Kuwait Technology Center". This center aims to collaborate with multinational firms in Kuwait with the objective of attracting technology, creating high value-added jobs and growing the ecosystem that promotes business.

Markaz also continued to gain the recognition of experts and specialists in the financial sector, winning the "Best Asset Manager in Kuwait" and "Best Investment Bank" awards in 2017 by EMEA Finance. Furthermore, Markaz was awarded the "Best Investment Bank in Kuwait" award by Global Finance.

Supported by the success during the year, the Board of Directors have recommended a cash dividend of 7% or 7 Fils per share, amounting to a total of KD 3.36 million. Over the past 6 years, Markaz has maintained strong distribution levels of cash dividends as part of its commitment to delivering shareholder value.

With new opportunities being unveiled across our industry, we continue to focus on our key strategic initiatives which will augment our market position as one of the leading asset management and investment banking firms in the region. Driven by our strong brand awareness, in depth expertise and talented investment professionals, we are well positioned to capitalise on our success in the years ahead. In summary, Markaz is committed to investing for the future, continuing to serve our clients effectively and creating sustainable value for all stakeholders.

Ongoing employee professional development reinforces our commitment to operating with integrity and developing leadership for the future. Being committed to talent development, as one of the three main pillars of its corporate, social and economic responsibility strategy, Markaz also launched the Develop and Hire Program (MDHP) for recently graduated Kuwaitis. This program aims to train students and develop their skills in order to assist them in making better career choices and contributing to the ever-changing business world.

Finally, I would like to thank the entire Markaz team for its success in maintaining the Company's position as one of the leading asset managers and investment banks in the region. This has been achieved while preserving the work ethics and values that make up the identity of Markaz as a sustainable, innovative and credible financial institution. I also extend our appreciation to thank all regulatory authorities represented by Central Bank of Kuwait, the Capital Markets Authority, Boursa Kuwait and the Ministry of Commerce and Industry. In addition, I would like to extend our appreciation to public and private sector institutions and civil society groups for their trust and partnership with Markaz for the common good of our economy and society.

Diraar Y. Alghanim
Chairman

CEO's Message

Dear Stakeholders,

I am pleased to inform you that Markaz has completed yet another successful year across its Asset Management and Investment Banking businesses. Despite the increasingly challenging global environment and rising risks, we continued to grow the business profitably. This would not have been possible without the full support and commitment of all of our stakeholders and employees.

At Markaz, we are passionate about demonstrating a measurable impact in all that we do. This is coupled with our focus on acquiring new clients across all our businesses, whilst continuing to strengthen our existing client partnerships. As a result, the year 2017 saw positive developments across each of our core business lines.

2017 Performance Overview

Total Assets Under Management (AUM) increased by 10% in 2017 compared to a decline of 9% in the previous year to reach KD 1.03 billion. This was mainly due to a 5% increase in the value of investments in addition to net positive inflows.

The MENA Equities AUM increased by 9% reaching USD 1.8 billion at the end of 2017, primarily due to favorable market conditions and client's continued trust in Markaz. We will continue to work on refining our investment strategies to enhance our performance relative to benchmarks during the course of 2018.

The International Investments Clients' AUM also increased due to positive market changes and we successfully restructured the asset allocation of our proprietary portfolio. This resulted in 2017 delivering better quality of our returns (volatility and spread over the benchmark), marking the year as a turnaround point. We also restructured our international investment services and focused them towards the evolving needs of family offices in context of geopolitical challenges.

In MENA Real Estate our AUM increased by 11% due to net inflows and the start of new Real Estate Projects. During the year, the market retracted mildly, with a substantial reduction in liquidity. As a part of our internal operating review, we have enhanced our property management capabilities with new systems in place.

In International Real Estate, AUM increased by 42% due to investments in new products during the year. We launched Fund 7 in the first quarter of 2017 and attracted commitments of over USD 75 million. Markaz also delivered profitable exits during the year including two industrial development projects and one apartment development project. Moreover, we closed our first European transaction in Dusseldorf, Germany in Q1 2017, and we look to build our European portfolio in the year ahead. Our International Real Estate business has acquired and invested in over 113 properties with a total development and acquisition cost of USD 1.4 billion over the years, and currently manages USD 383 million of real estate assets. Markaz has been investing in the US since the 1980s, and has successfully launched and exited several real estate funds. Our ideal transaction profile is in the mid-market space, with an equity investment up to USD 50 million where we can add the most development value.

In Fixed Income, our AUM decreased by 13% as result of a tightening interest rate environment. However, this was partly offset by positive market growth.

The year saw Markaz being awarded several mandates from the private and public sector and this will set the pace for the year ahead. Markaz operates in an

"Improving our client experience and redefining service delivery have been operational priorities at Markaz in 2017."

environment where change is happening faster, with digital technologies reshaping business models and the overall competitive landscape intensifying. With this context, improving our client experience and redefining service delivery have been operational priorities at Markaz in 2017.

As we step confidently into the future, Markaz sees the opportunity to build deeper partnerships with those stakeholders that we serve. We are also discovering new and smarter ways to run our business, while empowering our employees to preserve a future that is full of promise and potential.

Building a Learning Organization

With the arrival of modern technologies and practices such as predictive analytics, big data and artificial intelligence the world of asset management and investment banking will simultaneously face different sets of opportunities and challenges. For Markaz it is imperative to anchor the principles of responsiveness and constant learning in order to swiftly act upon the latest trends in order to maximise the interests of our stakeholders.

That is why automation and efficiency were key focus areas in our 2017 strategy. In the year ahead, Markaz will increase the quest for greater automation and efficiencies in order to provide a market leading experience for our clients and stakeholders.

Our ability to act as a cohesive learning organisation has meant that we have been able to increase the roster of clients in 2017 across both our asset management and investment banking services. High profile examples of this include quasi-government institutions such as the Kuwait Direct Investment Promotion Authority (KDIPA) and the Kuwait Foundation for the Advancement of Sciences (KFAS). We are also proud to now be working with new clients who have placed their trust with us and given us the privilege of serving them, including family offices as well as sovereign wealth funds.

Our consistent track record of delivering for our clients has helped us to develop the expertise to implement infrastructure projects. In our endeavor to realize this potential and seize such opportunities, we have succeeded in qualifying Markaz with related government entities to bid for government projects. As part of this strategy, we continue to build our network of relationships with consortiums that enable us to bid on large PPP projects.

We believe that our new client wins are a testament to our focus on addressing changing customer needs. In order to build on the momentum, 2018 will see an unrelenting focus on improving project execution times and extracting cost efficiencies in order to entrench long term competitiveness. This will mean increased focus on practices such as effectively leveraging information technology to drive process efficiencies and sustain overall corporate flexibility in line with market needs.

In Conclusion

Markaz needs to be continuously in tune with the risk appetite of its investors and the investment decisions they need to make. The multiplicity of asset classes available to investors today provides Markaz with the opportunity to continue to strengthen its market leading position with the focus on asset allocation strategies across products and geographies..

Our journey over the last 43 years reflects the support of our stakeholders, the trust of our clients, the commitment of our employees and our strong desire to serve our economy and country. With my sincere gratitude and appreciation to the Markaz team and Board of Directors, I look forward to an even more fruitful year in 2018.

Manaf A. Alhajeri
Chief Executive Officer

Our Offerings

1. Asset Management Business

Asset Management services include diverse, proprietary as well as customized investment solutions across mutual funds and specific portfolio management. With an exceptional track record, clear investment guidelines and a long term approach to investments, client returns and satisfaction are our top objective. The Markaz investment process focuses on stock selection and is backed by quantitative and qualitative analysis undertaken by a professional team of experts. It provides unbiased opinions that are critical to a successful investment strategy. The Private Banking team has established relationships with sovereign wealth funds, pension funds, banks, family offices and high net worth individuals providing them with advice and access to the Markaz financial product range.

Markaz AUM - KD billion	
2017 // **1.03**	
2016 // **0.93**	
2015 // **1.03**	

Service Offerings

Mutual Funds – Equity

Midaf
KD 83.4 million

Mumtaz
KD 60.3 million

Forsa
KD 38.6 million

Markaz Arabian Fund
USD 33.1 million

MENA Islamic
USD 16.1 million

Islamic
KD 14.4 million

Mutual Funds – Fixed Income

Markaz Fixed Income
USD 18.8 million

Mutual Funds – Real Estate

Markaz Real Estate
KD 81 million

Portfolio Management – Client & Proprietary

1. Equity Private Portfolios
2. Fixed Income Private Portfolios

Awards & Recognitions

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

Best Asset Manager
2016

MENA Fund Manager: Mumtaz
2010, '16

Best Asset Manager
2010, '11, '12, '13, '14
Best Equities Manager
2016

Best Fund: Markaz Arabian Fund
2014

2. Real Estate Investments

Markaz alongside its institutional and high net worth clients invests in real estate portfolios across MENA and the US. The real estate team sources opportunities, conducts due diligence, arranges debt financing to acquire real estate assets across residential, commercial and industrial segments. The portfolio is primarily focused on income generating assets and selectively development opportunities.

MENA Real Estate

In 1998, Markaz established a dedicated Real Estate division. Markaz MENA Real Estate has a team of 28 professionals and currently manages KD 319 million in assets in Kuwait, UAE, KSA and Levant. Additionally, the division operates though regional offices in Riyadh, Khobar, Dubai and Abu Dhabi.

Region	Property Portfolio
Kuwait	Markaz is managing part of the National Real Estate Portfolio, owned by Kuwait Investment Authority, with a value up to KD 250 million
KSA	Markaz started its operations in the KSA in 2006 and now has offices in Riyadh and Khobar. Projects under development • Residential project in Riyadh of 144 units valued at KD 15 million • Residential project in Khobar of 195 units valued at KD 23 million Income Generating Properties • Commercial building in Riyadh with 12 units of offices and shops • Commercial building in Dammam with 52 units of offices and shops
UAE	Markaz started its operations in the UAE in 2010. It currently has offices in Dubai and in Abu Dhabi. Projects under development • Residential project in Abu Dhabi of 165 units and valued at KD 25 million • Residential project in Dubai of 149 units and valued at KD 22.6 million Income Generating Properties • Residential building in Abu Dhabi Al Reem Island of 58 units • Residential building in Abu Dhabi Al Reef Island of 35 units • Residential building in Abu Dhabi Al Reem Island (Boardwalk) of 35 units

International Real Estate

Since 1988, Markaz has been conducting real estate transactions in the US through Mar-Gulf Management located in Los Angeles, California. Over the past three decades, Markaz and Mar-Gulf have been involved in the ownership and development of almost 112 properties for a total development and acquisition cost of over USD 1.3 billion. This includes approximately 6,500,000 sq. ft. of industrial warehouse space, 3,500,000 sq. ft. of retail, 1,350,000 sq. ft. of office and almost 3,050 apartment units. Markaz currently manages approximately USD 352 million of real estate assets across multiple funds.

Our Offerings (continued)

International Real Estate (cont.)

Track Record

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

Ongoing Projects

Name of Fund	Overview	Launch	Size (sq. ft. million)
Markaz U.S Distressed Debt Program	14 commercial whole loan mortgages of office, industrial, and retail space across 3 states	May 2010	0.41
Markaz U.S Development Program – VI	13 commercial development transactions across 5 states	April 2013	Office: 0.60 Industrial: 1.00 Self-Storage: 0.19 Multifamily: 250 units
Markaz U.S Value Add Program – VII	3 value-add apartments of 947 units in Austin, Chicago and Kansas City	Feb 2017	na

3. Investment Banking

Since 1997, Markaz has successfully executed investment banking transactions of USD 3.9 billion (as of 31st December 2017) across the region, spanning across equity issuance, debt issuance, mergers and acquisitions, listings, credit rating advisory, restructuring and other advisory transactions. Each client has a unique requirement, for which a consultative approach is adopted to formulate and advise optimal solutions.

Our success stems from our experience across both our technical execution capabilities and in depth industry knowledge. The investment banking team consists of dedicated professionals with proven expertise across a wide spectrum of different industries such as financial services, real estate, light and medium manufacturing, retail, oil & gas and logistics.

In 2017, Markaz was named 'Best Investment Bank in Kuwait' by Global Finance Magazine and 'Best Investment Bank in Kuwait' by EMEA Finance Magazine.

Investment Banking (cont.)

Flagship Assignments

M&A and Advisory

ACICO
Advisory
2017

NBK Capital Mezzanine Fund 1
Advisory
2017

Sultan Center Food Products Co.
Restructuring Advisory
2017

A'ayan Leasing & Investment Co.
Advisory
2017

Al-Ahli Bank of Kuwait
Advisory
2017

Al-Wazzan Education Co.
Advisory
2017

FAWSEC
Transaction Advisory
2017

Kuwait Saudi Holding Co.
Valuation Advisory
2017

Capital Markets and Listings

Alargan International Real Estate
Bond Issue
KD 26.5 million
Structuring & Financing Advisor, Lead Manager
2012

National Industrial Group
Murabaha Syndication
KD 120 million
Participant
2015

Gulf Bank
Bond Issue
KD 100 million
Co-Lead Manager
2016

Kuwait Financial Centre "Markaz"
Bond Issue
KD 25 million
Issue Manager
2016

Independent Petroleum Group
Rights Issue
KW 10.8 million
Lead Manager, Underwriter & Subscription Agent
2017

Specialties Group Holding Co.
Advisory and Listing on Boursa Kuwait*
2013

Dalqan Real Estate Co.
Advisory and Listing on Boursa Kuwait
2013

Al Eid Food Co.
Advisory and Listing on Boursa Kuwait*
2013

Al Razzi Holding Company
Advisor for Listing on Boursa Kuwait
2016

Awards & Recognitions

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

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

Most Innovative Investment Bank in the Middle East
2016

Best Investment Bank in Kuwait
2013, '14

Our Offerings (continued)

4. Research

Marmore, the research focused subsidiary of Markaz, has been publishing research reports and providing consulting services for over a decade. It has a long track record of research that has enabled Markaz to develop a substantial database on regional businesses and of efficiently delivering insightful projects for clients.

Economic & Policy Research

Marmore has partnered with several thought leaders and leading policy research institutions to generate Economic & Policy Research studies. Such studies are focused on implications for businesses in the MENA region.

- Industry Research
- Economic Research
- Infrastructure Research
- Capital markets Research
- Policy Research
- Periodic Research
- Regulatory Research

Consulting Services

Marmore provides customised consulting services based on the specific requirements of clients. Its bespoke consulting services combine the challenges of cost, time, scope and data availability to generate actionable outcomes that are specific to client needs.

- Industry Market Assessment
- White Label Reports
- Databases Access
- Company Valuation
- Due Diligence/Business Evaluation
- Feasibility Studies
- Business Plans
- C-Suite support at CXO level
- Directors Intelligence Support

Blogs

Marmore Blogs provide a succinct view on the latest developments in the region spanning from economy to capital markets. Below is a list of our recent popular blogs.

- Mobile payments are a great business opportunity for GCC banks
- Saudi Mortgage – Can it remove home ownership barrier?
- GCC debt deluge: big-ticket issues, even by international standards
- Alternative Financing to Gain Prominence in GCC
- Sources of Stock Market Wealth Creation: 3 Distinct Case Studies
- Are GCC businesses leveraging social media enough?
- Why UAE interest rates are more negative than they appear
- Should GCC banks be wary of Fintech entry?
- Revealed: The 30 most valuable non-banking companies in GCC
- What are the GCC region's high margin industries?
- Brexit: Impact on GCC Investments in Britain
- Managing the Big Float – Saudi Aramco
- Visualizing Saudi Arabia in MSCI EM

Webinars

Marmore's Webinars provide an in-depth discussion of topical themes that impact various facets of the GCC's economies and capital markets. Marmore's webinars are sought after due to the well laid-out presentations and thorough analysis. Below is a list of our recent popular webinars.

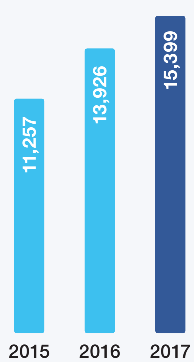
- GCC Industry Margins – Winners and Laggards
- Estimating the impact of Brexit on GCC economies
- Which GCC Stocks Created / Destroyed Wealth?
- Estimating GCC Sovereign Debt Issuance until 2020
- Top GCC Risks
- GCC Economic Themes
- GCC Stock Market Outlook
- GCC Liquidity – Impact on Banks, Equity market and Bond markets
- Iran nuclear Deal – Macroeconomic and Geopolitical implications on GCC
- Innovations in Islamic Finance

A Year of Exemplary Achievements

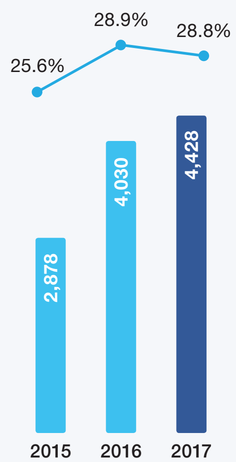
Financial Highlights

Consistently delivering shareholder value underpinned by attractive dividend payouts.

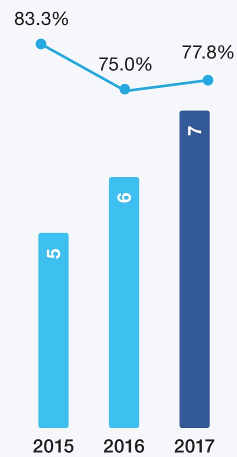
Revenue (thousand)



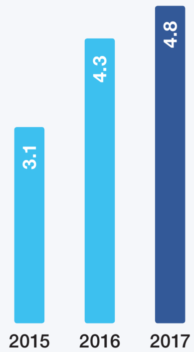
Net Profit (KD thousand) & Margin (%)



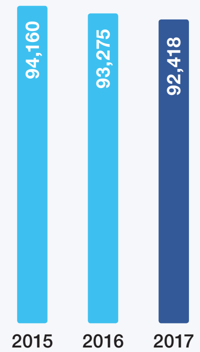
Dividend (Fils) & Pay-out (%)



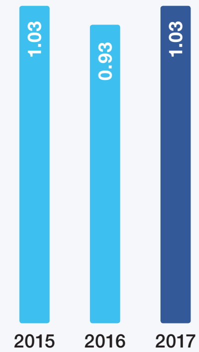
Return on Equity (%)



Shareholders Equity[1] (KD thousand)



Assets Under Management (KD billion)



[1] The Extraordinary General Assembly Meeting of the Shareholders ("EGAM") held 9th May 2016 approved the reduction of share capital by KD 5,050 thousand by cancellation of 50,498,253 treasury shares at nominal value of 100 Fils each.

A Year of Exemplary Achievements (continued)

Thought Leadership

Leading knowledge sharing initiatives at high profile conferences and sponsored events.

Mr. Manaf A. Alhajeri, CEO, Markaz participated in UNDP Kuwait National Consultation Roundtable Meeting, held in partnership with the GSSCPD and the private sector. The roundtable discussion was based on the first roundtable convened in October 2016 by UNDP and the General Secretariat of the Supreme Council for Planning and Development (GSSCPD) and between relevant national authorities and leading Kuwaiti private sector entities. More than 20 public and private sector entities participated in the event. The discussion considered the role of the private sector in supporting National Agenda 2030 and elicited key essential conditions to strengthen the private sector's engagement in national development efforts.

Markaz participated as a Gold Sponsor in 'Kuwait Investment Outreach Roadshow: Discover the Opportunities in a Transformed Economy', organised by Kuwait Direct Investment Promotion Authority (KDIPA) in collaboration with Financial Times Live. Mr. Manaf A. Alhajeri, CEO, Markaz participated as a speaker in a panel discussion to provide a special insight on finance and technology for Kuwait's future. He discussed various crucial topics such as the roles of FDI and capital markets in fostering a competitive business environment and the impact of the banking sector having on Kuwait's economy. He also discussed on the relationship between industry, technology and the economy in Kuwait and the fintech sector's impact on Kuwait FDI environment.

Markaz organized a conference titled: "Investing in the US Real Estate Market: The Opportunities and Risks" at the Chairman's Club. Markaz showcased to the audience the Company's global real estate presence and its investments and operations in the US It also highlighted the factors behind Markaz's success in the past few years deriving from the prudent selection of markets and sectors with stable returns amongst global volatility, the methodical approach used in the investments strategy, the flexibility in dealing with challenging transactions and the selection of right partners to guarantee best results in managing investments.

"Markaz is keen on keeping its clients and potential investors ahead of the curve by holding such enlightening events to exchange expertise and share our business strategies and investment approaches with our clients. Collaborating with the right partners, we strive to bring international experts to Kuwait to highlight the latest trends in the real estate sector, which provides an added value for our clients.."

Mr. Manaf A. Alhajeri, CEO

Markaz participated as a Platinum Sponsor in 'Gulf Debt Capital Summit' organized by Gulf Bond and Sukuk Association (GBSA) at The Ritz Carlton, Dubai. During the event, the regulators announced several initiatives that will offer bond and sukuk issuers further flexibility that will streamline the procedures to access their markets.

Markaz presented at Kuwait Foundation for the Advancement of Sciences (KFAS), a study titled "Identifying Priority Sectors in Kuwait" to a wide array of sophisticated audience from respectable organizations. Markaz prepared for KFAS a study that analyses and reviews a variety of evidence on which economic sectors could make greater contribution to Kuwait's future economic development (sustainability) and employment generation needs and recommends a list of priority sectors that should be focused on.

"We have seen the Bond and Sukuk issuances in the GCC reach at historic high levels for the 10 months period in 2017, reaching USD 92 billion; 65% of these issuances are sovereign. We expect the issuances to continue grow to meet the funding requirement of large projects. Our markets still have substantial borrowing capacity; the GCC total public debt to GDP stands at 26%, which is well below the world average, which stands at 60%."

Mr. Ali H. Khalil, COO

A Year of Exemplary Achievements (continued)

Commitment to Our Communities

Participating in community service and building a sustainable economy in Kuwait.
The strategy is founded on three main pillars:

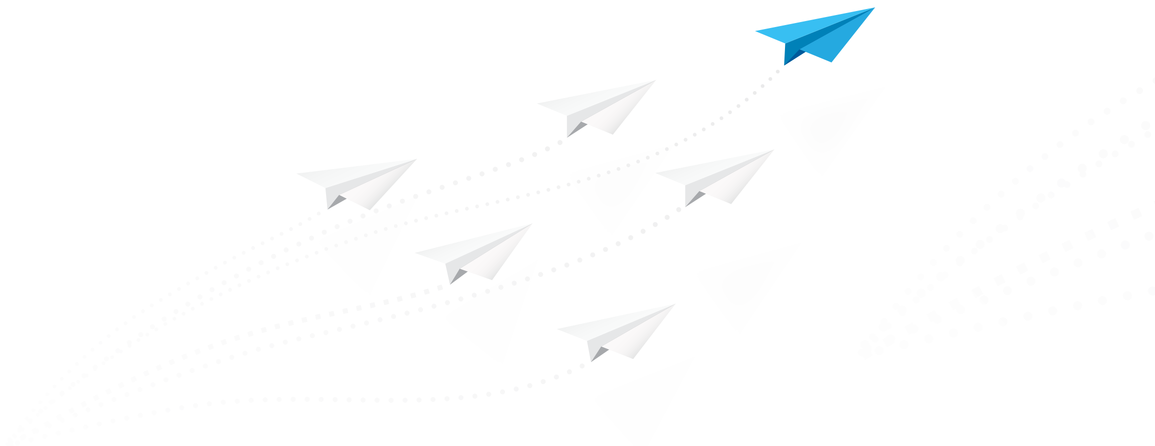
1. Building human capacity
2. Aligning the business environment with the principles of sustainable development
3. Promoting sound governance in the business environment

"Humanitarian Partner" to Kuwait Red Crescent Society

Markaz continued its partnership as a "Humanitarian Partner" with Kuwait Red Crescent Society (KRCS) to support the organisation in helping the needy patients in Kuwait and educating families with low income. Markaz is proud of their partnership with KRCS, which is one of the most credible non-profit organisations in Kuwait and aligns to the social objectives of Markaz.

Markaz in partnership with LOYAC

Committed to enhance the Human Capability Development of the region, Markaz renewed its annual partnership with LOYAC. The cooperation between the two institutions focus on sustainable development of the youth in the Kuwait society to ensure that they have the necessary skills to contribute to the national economic growth. This initiative focuses on training activities and volunteer programs in different fields where the youth can refine their professional abilities and skills.



3rd Edition of (FIKRA) Entrepreneurship Program

Markaz sponsored FIKRA Program, a nonprofit program designed and managed by Cubical Service Inc. for business incubators. The program launched its 3rd season after achieving significant success in the first and second seasons. FIKRA initiative aims at supporting the youth achieve their aspirations by helping them implement ideas and start the business ventures. Supporting small and medium enterprises (SMEs) and enforcing the role of youth in the economic sector is a priority to achieve the national economic vision for the future.

KACCH Child Life Program

Markaz continued supporting the Child Life Program of Kuwait Association for the Care of Children in Hospital (KACCH). The program aims at enabling the association's staff and volunteers to provide the highest standards of care to the children by reducing the stressful impact of hospitalisation on sick children and their families. Markaz renewed its sponsorship to the Child Life program to continue its participation in this initiative, that has supported over 48,000 interventions till date.

Market Commentary

Global Markets

During the year 2017, the S&P 500 increased significantly by 21%, almost double the prior year's gain. The technology and consumer discretionary sectors were primarily responsible for this strongest performance since 2013. The rally was paired with historically low volatility, which finished the year well below its long term historical average. Despite geopolitical headline risks, volatility ended the year at 11, as measured by the CBOE Volatility Index. In tandem, the Euro Stoxx 600 had its best year since 2013, gaining 11%, and the FTSE 100 rose 12%, closing at an all time high on the last day of trading.

Although US 10-Year Treasury yields dipped to a low of 2.1% in September, they ended 2017 flat at 2.4% compared to the beginning of the year. The yield on German bonds increased by 0.4%, while in Japan, 10-Year sovereign yields were flat at 5 bps. UK Gilt yields declined 5 bps to 1.2%. Within the energy markets, WTI and Brent crude oil rose 12.5% and 17.7% in 2017 respectively as prices were supported by OPEC and Russia led production cuts. The reduction in production is expected to continue in 2018. The US Dollar Index declined 9.8% in 2017, its biggest annual slide in almost 15 years. This was on account of the Euro, which relative to the USD broke a psychologically important ceiling of 1.20, rising 14% by the end of December. Pound sterling also challenged the USD by reaching 1.35, indicating a return of 9.6%.

GCC and Kuwait Markets

GCC equity markets also ended 2017 on a positive note as the S&P pan Arab Index recorded 4.5% gains during 2017. This increase was mainly driven by gains in the Kuwait and KSA markets registering 15.8% and 5.9% respectively. In fixed income markets, 2017 ended on a strong note and the positive sentiment has also carried over to 2018. GCC's debt investor base is expected to continue to grow in 2018, with demand coming from the record inflows to emerging markets and supply provided by the diversification needs of the region. The GCC offers a strong value proposition for debt investors, with attractive credit spreads given current and projected credit fundamentals. During the year, the differentiating factor for GCC fixed income markets was hard currency issuance. Historically, in the Central & Eastern Europe, Middle East and Africa (CEEMEA) region, hard currency issuance has always been led by Russia and Turkey. By contrast, the GCC region performed extremely well in 2017. Four of the top five deals amounting to an approx. USD 5.0 billion in emerging markets came from GCC sovereigns (two from KSA, one from Abu Dhabi and one from Kuwait).

Both Kuwait's economy and capital markets were the best performing in the GCC during 2017, outperforming its peers due to improving investor sentiment and increasing retail investor participation. On the sovereign rating front, Kuwait had one of the highest ratings among the GCC countries. The global credit rating agencies, Standard & Poor's and Fitch rated Kuwait at AA with stable outlook while Moody's rated at Aa2 with stable outlook.

Kuwait's equity market returns were supported by the blue chip rally including Agility, Zain, NBK and KFH. The prospects of consolidation in the banking sector enhanced investor interest further. The expectations of a possible upgrade of the Kuwait stock market to emerging market status by FTSE Russel in Sep 2018 also led to the market rally. Boursa Kuwait could potentially have a weight of 0.5% in the FTSE emerging market index resulting in a passive inflow of USD 600 – 800 million. In September 2017, the Kuwait market was upgraded by FTSE to an emerging market status. In addition, the Zain announcement of selling its treasury shares to Oman Telecom at 0.600/ share (which was a 33% premium) further enhanced investor sentiment. However, the market experienced a sharp correction in Q4 2017 after recording a positive performance of

"Both Kuwait's economy and capital markets were the best performing in the GCC during 2017, due to improving investor sentiment and increasing retail investor participation."

24.1% for the 9M 2017. In Q4 2017 investor focus was on profit booking following the FTSE's decision to upgrade the country to an emerging market coupled with increased geopolitical tensions in the region. The S&P Kuwait benchmark lost 6.67% in Q4 2017, however maintained its position as the region's leading performer YTD with a gain of 15.8%.

MENA Real Estate

The GCC real estate market was negatively impacted in 2017 as a result of a volatile political environment and economic weakness. In Kuwait, the market experienced low liquidity and a minor correction in valuations. Whilst the residential sector gained traction with an increase in sales and price stability, investment property activity remained low due to increased vacancy rates and higher utility bills. In the KSA, the real estate market was impacted by a drop in both rental rates and sale values across both the residential and commercial sectors. Residential properties in Abu Dhabi and Dubai continued their decline over the course of the year.

Political instability also impacted the broader market sentiment in the MENA region. Over the course of 2017, the real estate market in North Africa was mostly stagnant due to continued political instability across the region. Although Egypt has experienced negative events over the past several years, it still provides significant opportunities within the real estate sector. The real estate sector in Jordan remains stagnant whereas in Lebanon it continued negatively with transactions declining in value and number, due to oversupply and political uncertainties.

International Real Estate

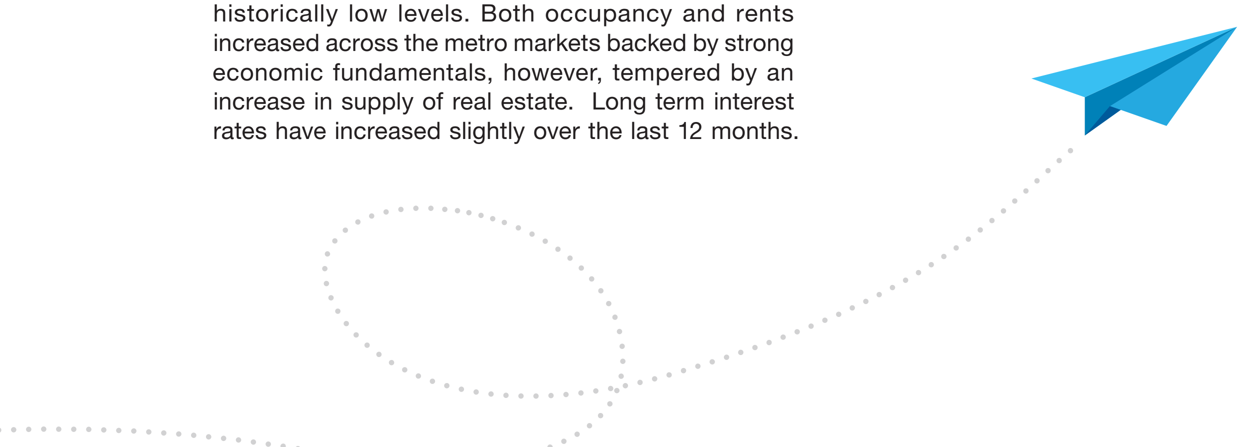
The year closed with real estate values in the US and across all property types at their peak as income continued to rise and cap rates remained stable at historically low levels. Both occupancy and rents increased across the metro markets backed by strong economic fundamentals, however, tempered by an increase in supply of real estate. Long term interest rates have increased slightly over the last 12 months. The NCREIF property index has increased by 6.9% and the NAREIT index has increased 9.3% during the year. Cap rates are expected to reverse their past trend and start rising over the medium term.

Investment Banking

Merger and acquisition activity in Kuwait remained buoyant in 2017, in line with deal flow in 2016 and 2015. The main transaction themes included industry consolidation in financial services, the sale of assets to deleverage balance sheets, investments in specific sectors such as food and beverage and education and a few cross border transactions.

Several large public and private transactions were completed during the year, including Omantel's acquisition of 21.9% of Zain, the sale of 25.3% of HumanSoft, the acquisition of 29.5% of Heavy Engineering Industries & Shipbuilding Co (HEISCO), Al Sayer's 45% acquisition of Al Razzi, and Boubyan Petrochemical's 78.4% acquisition of Educational Holding Group.

In addition, shareholders in publicly listed companies increased their ownership in companies through public tender offers pursuant to CMA regulations ("MTO"), such as Adeptio's acquisition of an additional 26.6% of Americana's shares.



Business Review

Asset Management

MENA Equity Funds

Despite active asset allocation and prudent financial management, Markaz's equity funds slightly underperformed their respective benchmarks during 2017. This was mainly due to the high volatility in the equity market as a result of significant political uncertainty in the region coupled with specific asset allocations. This is however, a short term impact and our investment strategy remains at the forefront of creating sustainable wealth for our clients over the long term.

Fixed Income Funds

During the year, the Markaz Fixed Income Fund (MFIF), with AUM of USD18.8 million, recorded a return of 2.5%, bringing its Inception to date return to 16.6%. The average credit rating of the fund was A- with a weighted duration of 3.3 years. Assets were allocated to different sectors across GCC countries including government, financial services, oil and gas, power and utilities, real estate, telecom and transportation.

Real Estate Funds

The Markaz Real Estate Fund is an open-ended fund launched in 2003 with the purpose of investing in income generating assets in Kuwait. As of 31st December 2017, the fund had KD 81 m in total assets across 19 properties out of which one is an active development. Progress on the development, Al Nada Tower, is progressing to plan with leasing expecting to commence in Q4 2018. In Q4 2017, the fund completed its development project in Bneid Al Gar, Al Maha Tower, and commenced leasing activities. The leasing activity was at a faster pace than anticipated due to a well planned and executed marketing strategy during 2017. The fund delivered a cash return of around 4.98% while achieving total returns of around 1.93%

The Markaz Real Estate Opportunities Fund is a closed ended fund launched in 2007 with the purpose of investing in real estate products across the MENA region. As of 31st of December 2017, the fund managed three investments in Lebanon, Jordan and Syria. The fund is expected to exit its investments during the course of 2018 with the exception of Syria due to the political situation in the country.

Portfolio Management

During the year, clients increasingly approached us for professional advice with regards to managing private portfolios and this trend is expected to continue into the year ahead. This was mainly driven by the fact that financial markets and client requirements are becoming more complex and highly demanding with time. The superior long term track record of our funds and stringent investment guidelines will be instrumental in capitalizing on opportunities going forward. In addition to equities, fixed income portfolios were managed on behalf of clients that want to invest in GCC bonds and sukuk markets.

Our proprietary funds gained 11.2% for the year in USD closely tracking our strategic index. Going forward, Markaz remains optimistic on risk given a supportive macro environment. In terms of capital deployment, the fund is overweight on Europe and Japan while bringing our Emerging Markets portfolio exposure equal to our benchmark. The portfolio is also neutral to the US markets and underweight credit.

Our business model for 2018 onwards will focus on building our advisory capabilities. Markaz looks to working with small family offices and individuals to help identify their objectives, providing unbiased investment advice and ensure diversification and protection of their assets given the uncertain geopolitical environment of the region.

Private Banking

The Private Banking Department's (PBD) key objective is to build and maintain long term relationships between the firm and investor clients, ensuring the highest standards of client management are maintained. The team has successfully established relationships with sovereign wealth funds, pension funds, banks, family offices and high net worth Individuals providing them with advice and access to a broad range of Markaz financial products and solutions.

During 2017, the PBD worked closely with its clients to structure the funding for an investment in an office building in Germany, the first for Markaz real estate in the country. This was in addition to the funding of 8 other International Real Estate properties that range from project developments to income yielding rental assets. Additionally, Markaz strategically assisted in the structuring of trusts for family offices and worked with insurance firms for custom solutions.

Further, PBD continued to work actively to enhance the Markaz collaboration with reputable local institutions through its dedicated team of relationship managers. A high priority has been to initiate new collaborations with the aim of further developing its distribution channels and commitment to providing innovative products and solutions. Looking ahead, PBD will focus on further expanding its sales allocation through an expansion out of Kuwait.

Private Equity

During 2017 private equity holdings at Markaz delivered a total realized return of 17%. These private equity investments continued to generate alpha returns, further reinforcing its leadership position during the year. Going forward, Markaz shall continue to actively manage the private equity investments there by maximizing value from our current holdings.

MENA Real Estate

Kuwait

The National Real Estate Portfolio was established in 2012 after Markaz was mandated to manage part of portfolio with a maximum value of KD 250 million. The objective of the portfolio is to invest in freehold real estate assets across Kuwait.

KSA

The Al Rawabi Pearl development portfolio is located in Khobar and consists of 76 residential and 2 retail units. The complex was completed and handed over in Q1 2016 and currently is managed as an income generating asset. During 2017, active management of the property continued to mitigate the weak market conditions and ensure higher occupancy levels are maintained.

The Al Rihab Pearl compound development portfolio is located in Riyadh and will consist of 144 residential and 1 retail unit once complete. The construction work has commenced in 2016 and handover is expected in Q1 2018 after which the leasing activities will commence. The compound is expected to be sold as an income generating asset once the income reaches stabilization.

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

UAE

The Shams Abu Dhabi residence portfolio is located on Al Reem Island in Abu Dhabi and will consist of 165 residential units once complete. Construction work commenced in 2016 and handover is expected in Q4 2018 after which leasing activities will commence. The tower is expected to be sold as an income generating asset once the income reaches stabilization.

The Business Bay residence portfolio located in Dubai to consist of 148 residential and 1 retail unit once complete. Construction work commenced in 2016 and handover is expected in Q3 2018 after which leasing activities will commence. The tower is expected to be sold as an income generating asset once the income reaches stabilization.

The Boardwalk residence portfolio is located on Al Reem Island in Abu Dhabi, UAE and consists of 35 residential properties. The complex was completed and handed over in Q4 2017 and currently is managed as income generating asset. Leasing activities have commenced and occupancy levels were 35% as of 31st December 2017. The tower is expected to be sold during 2018 as an income generating asset once the income reaches stabilization.

Taking a strategic view forward, Markaz sees attractive opportunities upcoming in select new markets and aims to extend its business presence in such markets for an early mover advantage. The MENA Real Estate division intends to launch a portfolio focused on investing in warehousing assets across the GCC region. This shall help establish custom portfolios for the select high profile investors that are already identified. The MENA Real Estate division is also focused on further reinforcing its market position and operations in existing markets. In this regard, the key priority shall be to exceed the planned progress of its ongoing developments as the majority are expected to be fully operational during the year.

International Real Estate

Consistent with market conditions and valuations, Markaz remained sellers of core stabilized income properties at the current low market yields. Capital has been redeployed in value-add and development projects in growth markets. Our development program has performed well during the year with increasing leasing activity. During the year Markaz monetized three assets, a fully developed apartment project in downtown Phoenix (AZ) and warehousing projects in Las Vegas (NV) and San Antonio (TX).

In addition, Markaz has acquired several value-add and development assets that met our stringent return criteria. These include 7 investments in the US, a self storage project in each of Los Angeles (CA) and Palm Beach (FL), a warehousing development project in Phoenix (AZ), an office development project in Dallas (TX), and value-add apartment projects in Chicago (IL), Austin (TX), and Kansas (MO). Markaz also initiated our entry in to the European market by acquiring a stabilized income producing office property in Dusseldorf, Germany.

Going forward, Markaz continues to seek new development transactions for the Markaz US Development Program - VI. However, the fund is becoming increasingly selective in the pursuit of transactions. In addition, Markaz will continue to expand it new investment

Business Review (continued)

program, Markaz US value Add program – VII) designed to capitalize on value-add opportunities in the US as well as in selective European markets.

Investment Banking

During 2017, Global Finance and EMEA Finance recognized Markaz as the best investment bank in Kuwait for its trusted advice and execution capabilities across complex transactions. Markaz successfully executed and advised on 13 transactions, including M&A, advisory, restructuring, valuation, debt restructuring, and strategic reviews.

Our flagship assignments in 2017 included the acquisition of 29.5% of HEISCO led by a consortium of investors and the debt restructuring of The Sultan Center. Further, Markaz successfully assisted a Fortune 100 company in establishing a 100% foreign owned branch in Kuwait and an Emirati Bank in negotiating the settlement of a defaulted loan to a local Kuwaiti borrower.

Markaz also acted as lead manager, underwriter and subscription agent to the capital increase of Independent Petroleum Group. The company issued 36,157,500 common shares at 300 Fils, raising a total of KD 10,847,250.

The year ahead is expected to deliver resilient transaction flow with investors seeking investment opportunities in the private equity space as an alternative to the public markets. Transaction structures are likely to include acquiring demerged entities from family businesses, undervalued publicly listed companies and holdings of banks and funds. Markaz has started 2018 with a very strong pipeline of deals and is in the process of executing 10 ongoing assignments, broad based across corporate finance activities.

Research

Research underpins Markaz's performance and is a philosophy that is aggressively embraced. Research capabilities expand into investment strategy and ideas thereby positioning Marmore as a thought leader in the region. Our clients can always trust us for a reliable and objective analysis that assists them in making an informed decision or stay abreast of the latest developments. Markaz's published research department continues to attract business with its insightful research studies disseminated through its research subsidiary, Marmore MENA Intelligence.

Marmore continued to strive for excellence and delivered actionable, client specific solutions in 2017. This included over 45 reports published on its research web portal and more than 30 bespoke engagements with entities across the GCC from large government and semi government institutions to corporations. The digital footprints of Marmore research further deepened during the year. Over 50 blogs articles on issues that pertain directly to the regional businesses and economies were published on a weekly basis. These blogs from various research studies were regularly sent out using social media channels and other digital marketing tools.

Marmore remained print media's preferred source of choice for articles that needed granular analytical commentary. Many leading regional newspapers and online news providers quoted Marmore's research findings or published exclusive interviews and articles from the Marmore team. The Company is ideally placed to maintain its market position in context of dynamic business conditions including the impact of artificial intelligence, uncertain geopolitical situations and the introduction of new financial regulations such as Mifid II. In 2018, Marmore will launch a new product concept called The Chart Bank. This will allow readers to visualise many intricate and complex data points in a visually simplified manner.

Support Functions

Treasury

Markaz's treasury department has maintained sufficient liquidity levels, yielding the proper balance of assets and liabilities, which enabled Markaz to timely honour its financial obligations. The treasury provides key support to all other departments and subsidiaries by providing reliable banking services including the arrangement of credit facilities, fund transfers, money markets and foreign exchanges. The department has experienced staff and is equipped with modern communication facilities that include the SWIFT platform in addition to the latest online banking cash management platforms from several banks to run the operations efficiently. The treasury department has funded Markaz and its subsidiaries requirements to honor their respective financial obligations in Kuwait, GCC and internationally in a timely manner. In addition, Markaz's treasury department has successfully secured a AED 44 million loan for one of its subsidiaries against an income generating property in the UAE at attractive pricing.

During 2017, the department was in the final stages of securing a construction financing term loan to one if its subsidiaries that is developing a residential complex in Abu Dhabi. The transaction is expected to be concluded during the first quarter of 2018. The treasury department will continue to establish new and develop existing relationships with banks locally and internationally to continue servicing the requirements of Markaz and its subsidiaries. Furthermore, the department will continue to utilise the latest technologies to enhance its operational efficiency to execute its financial services offered to Markaz departments' and subsidiaries including fund transfers, liquidity management and foreign exchange transactions.

Media & Communications

In 2017, the Media and Communications Department (MCD) continued to endorse the Markaz brand at local and regional levels in line with a comprehensive communications plan covering both conventional and digital media with a strong focus on social media.

MCD in collaboration with Private Banking, Research and International Real Estate Departments, organised a number of events for direct communication with Markaz's broader stakeholders. The events included seminars and conferences in collaboration with associations concerned with the financial sector, such as the Kuwait Banking Association, RSM Kuwait Albazie & Co. (RSM) and Gulf Bond and Sukuk Association, to exchange views with stakeholders on developments in local, regional and global markets.

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

In addition, MCD continued to hold the Pivotal Exchange Forum, a platform for all Markaz's employees to express their opinion constructively on how to improve the internal and external business environment, highlight issues that are deemed critical and provide ideas on how to improve overall competitiveness at Markaz. The forum started in 2015 and to date 15 topics have been discussed and 16 ideas proposed of which 50% have been implemented.

In 2017, MCD also updated Markaz's website adopting best international practices while introducing detailed information on Markaz products performance in an interactive user browsing experience in both Arabic and English. The new website has adopted state of the art web design technologies. Corporate Governance philosophy and policy have been added to the Investor Relations website page reflecting Markaz's commitment to governance principles.

MCD continued to implement Markaz strategy in the domains of corporate, social and economic responsibility (CSER). This is based on three pillars, building human capabilities, aligning business environment with the principles of sustainable development and promoting good governance in the business environment. To accomplish these pillars, Markaz collaborates with various civil organizations in many fields including health, education, culture, youth welfare and economic sustainability.

In 2018, MCD will continue to strengthen Markaz's internal and external communications, with emphasis on further enhancing its network and translating the brand value into business opportunities. For further details on Markaz campaigns and activities, please visit www.markaz.com

Compliance

Markaz has a comprehensive compliance framework in place to ensure that the Company and its activities are compliant with regulations and internal policies. The Compliance department is responsible to ensure overall regulatory compliance including adequate controls and governance frameworks through policies and procedures. The department also manages two independent units, the AML Cell and the Complaints Cell. The AML Cell is responsible for implementing anti-money laundering policy and related procedures. It also controls and ensures compliance with other applicable regulations. The Complaints Cell is responsible for receiving, resolving and reporting all client complaints. This department aims to strengthen all compliance systems through increased automation in 2018 whilst continuing to ensure the ongoing effectiveness of existing internal controls and processes.

Risk Management

Markaz's Risk Management department is directly reports to the Board of Directors, which in turn is supported by the Board Risk Management Committee which manages the Company's corporate wide risks. Markaz has a comprehensive Risk Management Framework in place to ensure that the Company's risks are appropriately governed with adequate risk management systems and controls. Markaz adopts an integrated and holistic approach towards risk management in which all the business units, risk management department and internal audit unit are considered as key pillars for the effectiveness of overall risk management framework.

Business Review (continued)

The Risk Management department identifies, measures, evaluates and reports on all critical risks to which Markaz is exposed, through defined Key Risk Indicators under relevant risk categories. The department monitors the adherence to the risk appetite limits set by the Board of Directors and reports quarterly to the Board Risk Management Committee and semi-annually to the Board of Directors. The department carries out periodic risk control and monitoring activities, and sets the appropriate internal policies, procedures and control mechanisms. The department is continuously enhancing its risk monitoring abilities through appropriate system automation.

Internal Audit

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

Systems & Operational Controls

The Systems & Operational Controls team launched VESTIO, a strategic full fledged asset management solution in 2015 which was developed with the objective of consolidating portfolio management, fund management and accounting systems into one platform. VESTIO was structured and designed by Markaz in line with international best practices with GCC specifications and is responsive to a dynamic regulatory environment.

During 2017, the Systems & Operational Controls team tested and released the local and international portfolio modules for live implementation. The team also implemented several upgrades on the Client Relations Module with the client classifications as required by Capital Markets Authority Regulations, Know-Your-Customer, Foreign Account Tax Compliance Act and Common Reporting Standard requirements. The team is continuously involved in developing and reflecting the ongoing changes as required by the business units and the management.

Information Technology

The Information Technology (IT) division is committed to delivering a strategic advantage to Markaz by fostering the creative and innovative use of technology to achieve business objectives. The IT department has been persistent in maintaining best practices and industry standards across IT infrastructure and participating technologies. During 2017 the primary goal was to prepare the IT infrastructure to respond to emerging threats and to be fault tolerant and resilient. The IT department managed to upgrade and enhance the network and security infrastructure by installing and upgrading new devices such as firewalls, intrusion prevention systems, anti-ransomware, implementing storage units and deploying multiple data backup solutions. A successful performance by the IT team has safeguarded the Company without any security incidents, which is a major accomplishment during this era of cybercrimes.

The IT department has successfully completed a number of projects including the deployment of Data Protection & Retention, IT security and operational enhancement solutions. Markaz Data Center has been equipped against failures of electricity and associated facilities. A successful Data Recovery (DR) plan has been developed and multiple test runs have been successfully executed to ensure Data and Service availability. IT has been successful in eliminating single point of failures by implementing load balancers interfacing multiple Internet Service Providers (ISP), perimeter firewalls, intrusion prevention systems and antivirus, antimalware, anti-ransomware solutions. IT has now deployed cost effective and competent monitoring solutions to help management proactively act on issues. The IT team has deployed market leading backup solutions to protect business data, withstand extreme circumstances including countywide disaster. Coordinating with the risk department, IT have successfully restored designated data from various backup repositories. The IT department employed external audit firms to validate compliance and security assessment, followed by deployment of recommended solutions. As part of operational enhancement, IT has successfully deployed corporate communication solution and email archive solution during this year.

In 2018, the department will strive to maintain the highest level of IT security by enhancing and deploying existing or emerging solutions and corroborating them against industry standards and best practices on a regular basis. The IT team aims to establish comprehensive DR ability to facilitate business units to operate from alternate locations within Kuwait in the event of disaster at the primary location (HQ). The department targets to deploy a number of IT operational enhancements with the intention of cost saving, including Cisco Jabber for relevant users, corporate and external video conferencing solution. Although the primary goal continues to be Data C-I-A (Confidentiality, Integrity and Availability), as part of long term strategy, the department aims to certify the Markaz Data Center by obtaining industry leading credentials from ISO and similar reputable organizations.

Transaction Processing & Reporting

The Transaction Processing & Reporting (TPR) department serves as back office for Markaz's asset management activities and plays vital role in achieving the Company's strategic goals. TPR's core functions include servicing securities, processing cash and securities transactions, maintaining internal controls, record keeping, custody, reconciliation and reporting. TPR's processes and systems provide timely and detailed account information to management, customers and regulatory agencies. As part of effective risk management, TPR has implemented comprehensive operational controls to ensure that the company provides safe and sound support for the administration of client accounts. In 2018, TPR will continue monitoring and revising policies and procedures to the ensure the efficient flow of work and responsibility allocation of the personnel involved in processing transactions, reconciliation and reporting.

Financial Management

During the year, the Financial Management Department (FMD) continued to implement its strategic plan to achieve effective internal control and long term sustainability into financial practices and policies. This will ensure stable liquidity positions, improved levels of transparency, compliance with financial ratios and disclosures of material financial information as required by Central Bank of Kuwait and Capital Markets Authority.

IFRS 9 (Financial Instruments) refers to the classification and measurement of financial assets and liabilities and IFRS 15 (Revenue from contracts with customers) refers to a five step approach to revenue recognition. These two standards are mandatory for annual periods effective 1st January 2018. IFRS 9 is expected to have substantial impact on the investment sector financial statements. The FMD proactively conducted a study and evaluation of the potential impact of IFRS 9 on Markaz financial statements to ensure that Markaz is ready for adoption of this standard. The FMD also advised senior management and relevant departments about the recommended course of action.

The KSA and UAE implemented Value Added Tax (VAT) with effect from 1st January 2018. The FMD coordinated with the MENA Real Estate department to provide advice and services in context of real estate portfolios and property management. Accordingly, the subsidiaries and SPV's of Markaz located in these countries have been successfully registered under the VAT authorities in compliance with the applicable VAT laws. All the legal formalities for VAT registered entities were completed within statutory timeframe and fulfilled the Company's binding obligations.

During 2017, the FMD substantially adopted Oracle Financials System. The team is currently reconciling the last year and is targeting to transition from Flexcube to Oracle during the earlier half of 2018. The full implementation of the new system will enhance the FMD operations and deliver timely and accurate financial information with greater speed and efficiency. Further, the FMD's continues to focus on the training and skill development of its staff to meet the requirements of technological advances and dynamic industry landscape. The department will constantly work at aligning business needs and play a pivotal role in establishing adequate financial management standards and control functions which will support Markaz as its business evolves.

Human Resources & Administration

Human Resources & Administration (HRA) department's vision is to work strategically with heads of departments and senior Management to support them in their business decisions and objectives. In this respect, emphasis is placed on Markaz's leadership development directed towards senior executives. Various workshops such as leadership coaching and interviewing skills were conducted during 2017 to provide them with tools and techniques to increase their effectiveness and performance resulting in achieving their full potential. In 2018, focus will continue on leadership development, improving employee engagement, attracting and retaining employees with the right skills. Having an effective compliance and regulatory training program across the organization to reduce risks and strengthen compliance is also a high priority.

In addition, the department structured a Career Path framework to ensure employee development and progress within the organization. This approach will provide Markaz employees with an ongoing mechanism to enhance their knowledge and skills leading to job progressions and advancements. In 2018, focus will be on enhancing employee development through the structured approach of Career Path.

Corporate Governance Report

Rule 1: Building a Balanced Board Composition

Composition of the Board of Directors:

The Board is composed of seven members elected by the Company's General Assembly for three years.

Director	Executive / Non-Executive / Independent	Qualifications	Date of Election
Diraar Yusuf Alghanim	Chairman	Professional accountancy from Glasgow University	19/4/2017
Humoud Sabah Al-Sabah	Vice Chairman	Chairman and member of the Board in contracting, telecommunication and financial services companies	19/4/2017
Faisal AbdulAziz Al-Jallal	Independent	University degree from Alexandria University	19/4/2017
Ayman Abdulatif Alshaya	Non-Executive	Bachelor's Degree in Mechanical Engineering from Kuwait University	19/4/2017
Fahad Yaqoub Al-Jouan	Non-Executive	Bachelor's Degree in Business Administration from Eastern Washington University	19/4/2017
Al-Seef Financial Brokerage Company (KSCC), represented by Fouzi Ebrahim Al-Mukaimi	Non-Executive	Master of Professional Accounting from University of Miami, US and a Bachelor's Degree in Accounting from Kuwait University	19/4/2017
Adel Mohammed AlGhannam	Independent	Bachelor's degree in Business Administration	19/4/2017

Summary of the Board's Meetings in 2017:

Attended • Absent x

Director	Meeting 1 30/1/2017	Meeting 2 8/3/2017	Meeting 3 20/4/2017	Meeting 4 3/5/2017	Meeting 5 27/7/2017	Meeting 6 6/11/2017	Number of meetings
Diraar Yusuf Alghanim	•	•	•	•	•	•	6
Humoud Sabah Al-Sabah	•	x	•	x	x	x	2
Faisal AbdulAziz Al-Jallal	•	•	•	•	x	•	5
Ayman Abdulatif Alshaya	•	x	•	x	x	•	3
Fahad Yaqoub Al-Jouan	•	•	•	•	•	•	6
Fouzi Ebrahim Al-Mukaimi	•	x	•	x	•	•	4
Adel Mohammed AlGhannam	•	•	•	•	•	•	6

Summary on registering and coordinating requirements as well as keeping minutes of the Board meetings:

The Board Secretariat team follows clearly defined procedures in preparing, signing and keeping minutes of Board meetings, which comprise the following:

- A draft of the minutes is prepared by the Secretary and presented to the Chief Executive Officer and Chief Operating Officer for review.
- The approved draft is then submitted to the Chairman for review. The draft is revised as directed by the Chairman.
- The minutes are then delivered in their final form to the Assistant Board Secretary to follow up on the signature of the Chairman and members present during the meeting.
- After signing, the Assistant Board Secretary scans a copy of the minutes and saves it in a file specific to the meetings, while the original draft is kept in the file dedicated to the meeting in question.

Rule 2: Establishing Appropriate Roles and Responsibilities

Summary of how the roles and responsibilities of the Board of Directors and the Executive Management have been defined, as well as the authorities and powers delegated to the Executive Management:

The "Board of Directors Policies" is prepared by the Compliance Department and the Board's Secretariat in accordance with the requirements of the Companies Law, the Capital Market Authority Law, its Executive ByLaws and corporate governance requirements. The Policy, presented to the Board of Directors for approval, defines the roles and responsibilities of the Board, the Chairman, members, Board Committees and procedures to form them. It also outlines the procedures to hold meetings of the Board, its Committees and the Annual General Meeting (AGM), in addition to the procedures for submitting periodic and annual financial statements to the regulatory bodies and ways to disclose them.

The "Delegation of Powers Policy" and the list of authorized signatories are prepared and / or amended by the Compliance and Risk Management Department according to the requirements of the Company's activities and law. The Policy and list are submitted to the Executive Management for review and audit. The final versions are presented to the Board of Directors for discussion and approval. Following the approval, the Compliance and Risk Management Department circulates them to other departments. The Treasury Department also circulates the list of those authorized to sign for transactions at the banks. The Policy and list are updated through recommendations submitted by the Executive Management to the Board in an aim to facilitate the functions of departments and the company as a whole.

The "Delegation of –Powers- Management Committees"policy is prepared and/or reviewed with respect to the composition of the committees, their roles and responsibilities, and the voting mechanism for each. After the approval of the Board, the Compliance and Risk Management Departments circulate the Policy to all departments. The Policy is updated through recommendations submitted by the Executive Management to the Board in order to add new members to the committees based on their position and functions, an /or to amend the roles and responsibilities of a committee.

2017 Achievements:

A. The formation of the Board and its Committees following the elections at AGM held on April 19, 2017, during which the independent members were appointed, and the members of the Board Secretariat were reappointed.
B. Adoption of the independence criteria for the members of the Board of Directors.
C. Approval of job descriptions of members (independent / executive / non-executive).
D. Approval and implementation of the training plan for the Board and Executive Management for the year 2017.
E. Updating the organizational structure of the Company by adding a new activity, the custodian activity, licensed by the Capital Market Authority (CMA).
F. Approving the amendments to internal policies and regulations, the most important of which are:
   i. "Policy on Related Party Transactions"; "Financial Management Policy and Procedures"; "Risk Management Policy and Procedures"; "Policy and Procedures for Media and Communications".
   ii. "Guidelines for Custody, Review and Update of Policies and Procedures".
   iii. Adding the "Policy on Employees' Remuneration" to the Human Resources Management and Administration Policy.
   iv. "Board and Executive Management Remuneration Policy".
   v. "Investor Relations Policy"; "Shareholders Policy"; "Stakeholders Policy".
   vi. "Policy for the Selection and Appointment of Auditors".
G. Approval of periodic reports issued by the Risk Management Department
H. Training courses on:
   - Rules on "Combating Money Laundering and Financing of Terrorism";
   - Disclosure obligations;
   - Amendments to the Executive Regulations of the Capital Market Authority Law No. 7 of 2010;
   - Trading and market maker rules issued by Boursa Kuwait.

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

1. Audit Committee:

A. Roles and achievements of the Audit Committee in 2017:
   i. Reviewed the annual and interim financial statements with the auditors before presenting them to the Board of Directors.

Corporate Governance Report (continued)

ii. Approved the annual internal audit plan and discuss the reports of the internal auditor on the work executed by the departments and recommend corrective steps.
iii. Recommended the reappointment of the external auditor and approved the appointment of an auditor to assess and review the internal control systems (ICR).
iv. Reviewed the periodic reports from the complaints and loans unit.

B. The Committee was formed on April 20, 2017 for a period of three years.
C. Chairman: Faisal AbdulAziz Al-Jallal- Members: Fouzi Ebrahim Al-Mukaimi, Adel Mohammed AlGhannam.
D. In 2017, the Committee held six meetings.

2. Steering Committee:

A. Roles and achievements of the Steering Committee in 2017:
i. Reviewed the reports from various departments on the performance of local, regional and international investments in securities (equities and fixed income instruments) and real estate.
ii. Reviewed and recommended to the Board the estimated budget for 2018 and the plan of action for the years 2018-2020.
iii. Approved the asset allocation plan for global investments for 2017, the liquidation of the Mawazeen International Fund established in Kuwait, and the Atlas International Investments Fund established in the Cayman Islands.
iv. Approved the appointment of Meysan Partners law firm.
v. Approved the establishment of special purpose companies to serve the Company's investments and clients' investments in the Cayman Islands.

B. The Committee was formed on April 20, 2017 for a period of three years.
C. Chairman: Diraar Yusuf Alghanim - Members: Ayman Abdulatif Alshaya, Fahad Yaqoub Al-Jouan.
D. In 2017, the Committee held two meetings.

3. Risk Management Committee:

A. Roles and achievements of the Risk Management Committee in 2017:
i. Reviewed the progress of implementing the risk management framework and the results of the stress tests program.
ii. Approved the updated "Risk Management Policy and Procedures".
iii. Reviewed the risk control self-assessment results for some departments.
iv. Reviewed the quarterly risk management reports.
v. Reviewed the periodic reports from the money laundering unit and reports on resignations and their reasons, appointments and their necessity, as well as cases filed by or against the Company.

B. The Committee was formed on April 20, 2017 for a period of three years.
C. Chairman: Faisal AbdulAziz Al-Jallal - Members: Fouzi Ebrahim Al-Mukaimi, Adel Mohammed AlGhannam.
D. In 2017, the Committee held four meetings.

4. Nominations and Remunerations Committee:

A. Roles and achievements of the Nominations and Remuneration Committee in 2017:
i. Approved the nomination and re-nomination for the election of the Board of Directors.
ii. Adopted the job descriptions of Board members (independent / executive / non-executive) and submitted them to the Board for approval.
iii. Authorized the Chairman of the Board to evaluate the performance of the Executive Management and approved the remuneration report for the fiscal year 2016.

B. The Committee was formed on April 20, 2017 for a period of three years.
C. Chairman: Diraar Yusuf Alghanim - Members: Ayman Abdulatif Alshaya, Fahad Yaqoub Al-Jouan and Faisal AbdulAziz Al-Jallal.
D. In 2017, the Committee held two meetings.

Summary of how the requirements to allow Board members to obtain accurate and timely information and data were implemented:

The infrastructure and technology base are presently being developed to facilitate communication between the Company and its members, enabling them to access information fast and easily. The Company provides the Board, its Committees and Executive Management with complete reports on the work strategy, budgets, performance and financial statements. We have consolidated the reports presented to the Board, its Committees and the Executive Management and its Committees, whereby they receive reports prepared from data generated by our systems. We are also working on integrating our systems to help us better deliver full fledged performance and financial position reports. We expect the new system to be fully implemented before the first quarter of 2017.

Rule 3: Recruiting Highly Qualified Candidates for the Board of Directors and Executive Management

Summary on the implementation of the requirements for the formation of the Nominations and Remuneration Committee:

- The formation and responsibilities of the Committee have been identified with the “Board of Directors Policies”. The Committee was formed during the Board meeting held on April 2017 ,20.
- The Board confirmed the formation of the Board, its Committees and the election of independent members during its third meeting held on April 2017 ,20.

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

- A summary of the remuneration table is distributed at the Annual General Meeting.

Rule 4: Safeguarding the Integrity of Financial Reporting

Written undertakings from the Board of Directors and Executive Management on the soundness and integrity of the financial reports:

The following written undertakings were presented in the second Board meeting for the year 2018, held on February 2018 ,6, and discussing the financial statement for the year ended December 2017 ,31:

- A letter issued by the Executive Management confirming the soundness and integrity of the financial statements for the year ended December 2017 ,31.
- A letter issued by the Financial Management Department regarding the annual review of the capital structure for the year ended December 2017 ,31.
- A letter issued by the Financial Management Department regarding the assets and capital expenditures for the year ended December 2017 ,31.
- A letter issued by the Financial Department regarding the commitment to the delegation of powers to the Executive Management during financial transactions for the year ended December 2017 ,31.
- The Board of Directors included an undertaking in the annual report confirming the soundness and integrity of the financial statements for the year ended December 2017 ,31.

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

- The Audit Committee was formed with its present members on April 2017 ,20, following the election of the members of the Board during the AGM on April 2017 ,19.
- The role and responsibilities of the Audit Committee has been established through the “Board of Directors Policies” while the mechanism and procedures of the Committee's work have been defined in the “Board Secretariat Procedures”.
- The Audit Committee is composed of independent, non-independent, non-executive members, and excludes the Chairman. Members of the Committee have practical and financial experience and qualifications in accounting.

In the event of a conflict between the recommendations of the Audit Committee and the decisions of the Board of Directors, a note is attached detailing and clarifying the recommendations and the reason(s) behind the Board of Directors' decision not to comply with them:

- There was no conflict between the recommendations of the Committee and the decisions of the Board of Directors during the year 2017.

Ensure the independence and impartiality of the external auditor:

- The external auditors are independent from the Company.
- The external auditors do not carry out auditing work for any funds managed by the Company.
- The external auditors do not perform any other work for the Company that is not part of the review and audit work.
- Partners in the auditors’ firm are rotated every 4 years.

Rule 5: Applying Sound Systems for Risk Management and Internal Controls

Brief summary on the implementation of requirements for the formation of an independent department / office / unit for risk management:

- The Risk Management Department is fully independent, reports to the Chairman and presents its semi-annual risk reports to the Board;
- The Head of Risk Management Department is registered with the Capital Markets Authority (holds the position of Senior Vice President) since October 2012 ,2. The Risk Management Department employs qualified individuals who have the technical and professional experience in the field.

Corporate Governance Report (continued)

Brief summary on the implementation of requirements for the formation of the Risk Management Committee:

- The Risk Management Committee was formed by the Board during its third meeting held on April 20, 2017.
- The roles and responsibilities of the Risk Management Committee have been defined in the "Board of Directors Policies" while the mechanism and procedures of the Committee's work have been defined in the "Board Secretariat Procedures".
- The Committee is composed of independent and non-independent members, and excludes the Chairman.

Summary detailing the internal control systems:

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

- Identify and establish internal policies, regulations and procedures that define the authorities and mechanisms for implementing the work;
- Delegate authorities under a clear policy approved by the Board of Directors;
- Ensure segregation of roles and responsibilities between decision makers and executors of decisions
- Establish internal controls to ensure the soundness of assets and contain responsibilities and claims within the approved limits;
- Provide an accounting system for financial transactions, and issue financial reports and statements in accordance with the principles of accounting;
- Establish controls and systems to detect, evaluate and manage risk factors that affect the various activities of the Company.

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

- The Company has outsourced the internal audit responsibilities to an independent audit office, whereas the internal audit department acts as the coordinator of internal audit work between the Company and the audit office.
- The Internal Audit Officer was registered with the Capital Markets Authority on September 20, 2016.
- The Internal Audit Officer is responsible of the following:
  - Coordinate the development of the annual internal audit plan for submission to the Audit Committee for approval;
  - Coordinate the completion of internal audit works (field visits, meetings with relevant departments, review of draft reports, reporting observations and responses of departments to issued reports);
  - Coordinate with the Internal Auditor to attend Audit Committee meetings and submit the audit results reports.

Rule 6: Promoting Code of Conduct and Ethical Standards

Charter of business, which includes standards, professional conduct and ethical values:

The "Code of Conduct" and "Standards of Professional Conduct" represent the core set of principles, which we follow in our business ethics. These principles are in line with the best practice standards in the financial market and ensure a professional conduct in asset management and investment banking investments. These standards also include specific regulations to eliminate insider information and ensure commitment to the integrity of financial markets, the privacy of client information, confidentiality and other requirements. The "Code of Conduct" and "Standards of Professional Conduct" are made available to relevant stakeholders, and are applicable to all employees, members of the Board, subsidiaries and managed funds.

Limiting Conflict of Interest Policy:

- The Company adopted the "Conflict of Interest Policy" to limit potential conflict of interest. The policy sets guidelines to ensure fairness in dealings and transactions with stakeholders as well as to disclose these types of transactions.
- The term "related parties" and disclosure obligations have been defined in the Kuwaiti Companies Law, International Accounting Standards (IAS) 24 on Related Party Disclosures, and the Executive Bylaws issued by CMA on November 2015.
- The Company classifies persons or parties in the category of "related parties" when they meet at least one criteria stated in the definition of "related parties", in order to comply with accounting standards and applicable regulations.
- The Company maintains a list of names of related party, which is updated by the Chief Financial Officer (CFO) and reviewed periodically by the Compliance, Risk Management, and Financial Management Departments and the Board Secretary.
- All transactions with related parties are subject to approved terms and conditions in the Company's fair and sound business practices as determined by the Board of Directors.

- All transactions with related parties are handled impartially and based on fair market value. Appropriate safeguards are provided if necessary, without imposing preferential conditions beyond the appropriate limits.
- All transactions with related parties must comply with applicable accounting standards and regulations.
- The approval / signing of the Board of Directors and AGM is required to conduct transactions with related parties.
- All transactions with related parties are disclosed in the Annual Report and the AGM. Disclosure obligations relating to such transactions are also complied with.
- Risk Management reviews transactions with related parties and makes recommendations to the Board.
- The Head of the Financial Management Department confirms:
  - If the other party concerned is a related party and is among the list of related parties.
  - If the transaction was completed based on the required approvals, and whether it is registered and disclosed as required.
- Should the Management of the Company decide to deal with the related parties, they should inform the Head of the Financial Management Department and the Board Secretary immediately. The relevant department is responsible to seek approval from the Board.
- The Executive Management should participate in the negotiation and initial verification process by receiving necessary information in a timely manner and may request further information to present to the Board.
- The Board of Directors may request assistance from one or more independent experts at the Company's expense. There is no plateau for spending on the fees of independent experts appointed by the Company to verify material transactions with related parties.

Rule 7: Ensuring Timely and High Quality Disclosure and Transparency

Summary on applying processes for transparent and accurate disclosures that determine disclosure areas, fields and characteristics:

The Company is committed to the highest degree of accuracy and transparency towards stakeholders when disclosing information in line with regulatory requirements and Company policy.

Markaz adopted the "Disclosure and Transparency Policy" which details disclosure requirements, guidelines and responsibilities (including financial, non financial and regulatory disclosures). The Policy also requires the application of consistent disclosure practices to ensure the disclosure of Company information and material in a fair and professional manner and to provide accurate information in a timely manner for the benefit of internal and external stakeholders. In compliance with CMA regulations:

1. The Company established an Investor Relations Unit responsible for providing information to shareholders.
2. The Company maintains a record of disclosures related to the members of the Board and Executive Management. Shareholders can review the register through the Investor Relations Unit or at the AGM.
3. The Company dedicated a section on corporate governance on its website as well as for news and events, disclosures, financial statements and contact information of the Investor Relations Unit.
4. The Company ensures that important information, financial results and events are immediately posted on the Company's website.
5. The Company ensures that important events such as the AGM, financial performance and other significant announcements are disclosed as well in newspapers, websites and social media.

Summary on applying disclosures register requirements for members of the Board and Executive Management:

- The Company established an Investor Relations Unit responsible for providing information to shareholders.
- The Company maintains a record of disclosures related to the members of the Board and Executive Management. Shareholders can review the register through the Investor Relations Unit or at the AGM.

Brief on applying the requirements for establishing an Investor Relations Unit:

- The Investor Relations Unit was established, and an officer was appointed in 2014.
- The Investor Relations Unit was disclosed. A section was added to the Company's website which also contains the contact information for the Investor Relations Unit.

Summary on the development of the information technology infrastructure and its reliability in the disclosure process:

A section has been allocated on the Company's website for Investor Relations, which includes the following sections:

- Financial results;
- Annual reports;
- Company documents;
- Corporate governance;
- Stock performance;
- News and events;

Corporate Governance Report (continued)

- Disclosures, including:
  - Major shareholders and ownership shares;
  - Auditors and regulators;
  - Material information.
- Means of communication with the Investor Relations Unit;
- Means of filing investor complaints.

Rule 8: Respecting the Rights of Shareholders

Summary on the implementation of requirements to identify and protect shareholders' rights, ensuring equality among all shareholders:

- The Board has approved the "Shareholders' Rights Policy" in December 2014.
- A summary of the policy and its principles is published on the Company's website, presenting the following:
  - Right to be treated on par with other shareholders.
  - Right to trade or dispose of the shares owned by the shareholder and to exercise pre-emption rights to subscribe for new shares and bonds or sukuk.
  - Right to record the value of shares owned in the Company's records.
  - Right to receive their share of dividend distribution and bonus shares.
  - Right to receive their share of Company's assets, in case of liquidation.
  - Right to participate in the General Assembly meetings of shareholders and voting on decisions.
  - Right to elect members to the Board of Directors.
  - Right to monitor the Company's performance in general and the Board of Directors in particular.
  - Right to view the Company's Articles and Memorandum of Association, General Assembly minutes, and the shareholder and bondholder registers at the registered address of the Company.
  - The Company shall not bar any of the aforementioned rights for any class of shareholders or lay down criteria, which may discriminate between the classes of shareholders in order to establish such rights.
  - Complaints from investors are handled by the Investor Relations Unit and the independent Complaints Unit.

Summary on creating a register at the Clearing Company as part of the requirements to update shareholders information:

- The Kuwait Clearing Company maintains the register of shareholders.
- The Investor Relations Unit of the Company maintains a copy of the "Shareholders' Register and Bondholders" register, making it available to shareholders.
- The Investor Relations Unit provides the contact information of the officer in charge of responding to shareholders' queries.

Summary on how to encourage shareholders to participate and vote in AGMs:

- The invitation to the AGM is published in local newspapers, the Boursa Kuwait's website, and the Company's website.
- Folders containing the agenda, Board report and financial statements are prepared.
- The Investor Relations Unit and the Board Secretariat follow up with the Clearing Company and shareholders to ensure that they received their proxy and will be present at the AGM.
- The Chairman discusses the items on the agenda during the AGM and request attending shareholders to vote thereon.

Rule 9: Recognizing the Roles of Stakeholders

Summary on the systems and policies to protect and recognize the rights of stakeholders:

- The Board has approved the "Stakeholders 'Rights Policy" in December 2014, which identifies the following principles:
  - Stakeholders are, without limitation: shareholders, employees, clients, business partners, suppliers, competitors, creditors, associations and professional bodies, regulators, media and the general public.
  - Each interested party has the right to access information that is important to them without delay. The Company ensures that the information is provided without delay by providing it on the website, direct correspondence, meetings and other means as the case requires.
  - Preferential treatment is forbidden in dealing. Transactions with related parties are subject to set procedures to ensure that interests do not conflict and are dealt with fairly.
  - Complaints by stakeholders are handled through the independent Complaints Unit.

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

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

Rule 10: Improve and Enhance Performance

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

- The Board approved the "Training Policy for Board Members and Executive Management" on May 9, 2016.
- The Board has undergone training courses on the following topics:
  - Anti-money laundering during 2017.
  - Disclosure obligations.
  - Legal developments:
- Amendments to the Executive Bylaws of the CMA Law number 7 of 2010;
- Trading rules issued by Boursa Kuwait;
- Market Maker rules issued by Boursa Kuwait.

Summary on the assessment of the performance of the Board, each member of the Board, and members of the Executive Management:

- The Board has approved the "Performance Evaluation Policy for Board Members and Executive Management" on October 31, 2016.
- At its meeting held on March 8, 2017, the Nominations and Remuneration Committee recommended to the Board the adoption of KPIs for members of the Board and Executive Management and recommended to give the Chairman authority to evaluate the performance of members of the Board and Executive Management as well as identify their remuneration and annual bonuses.
- At its meeting on March 8, 2017, the Board adopted KPIs for members of the Board and Executive Management, completed the performance evaluation of members of the Board and Executive Management, and approved the delegation of authority to the Chairman to evaluate the performance of members of the Board and Executive Management as well as identify their remuneration and annual bonuses.

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

- The Executive Management holds Pivotal Exchange Forums with employees from different departments to encourage the exchange of ideas while ensuring participating employees are rotated to provide equate opportunities.
- The Communications and Media Department publishes a quarterly magazine titles "Engage" in which employees contribute to writing articles and sharing their professional and personal experiences;
- The Human Resources Department holds the Leadership Program annually to a number of middle management employees from various departments to prepare them for leadership positions in the future. The program is provided by consultants Ernst & Young (E&Y).
- Professional training programs are held all year long for employees.

Rule 11: Focusing on Corporate Social Responsibility

Summary on the policy to ensure a balance between corporate objectives and social goals:

In its continued endeavors to actively take part in the community and positively contribute in building a strong and sustainable economy in Kuwait, Markaz adopted a social and economic responsibility strategy aimed at fulfilling the Company's responsibilities towards the society and national economy.

The strategy was developed based on three pillars:

1. Building human capacity: Out of its belief that the sustainable future of Kuwait relies on individual skills and capabilities, Markaz cooperates with active non-profit organizations and contribute to human capacity building programs, in order to provide for and maintain sustainable progress.

2. Aligning the business environment with the principles of sustainable development: Focusing on policy research, studies and events related to the management of public and private sectors in order to develop the best practical solutions to improve the overall business environment.

Corporate Governance Report (continued)

3. Promoting sound governance in the business environment: Promoting a sustainable business environment through sustainable governance principles based on democratic participation, citizen needs, efficiency, transparency, respect for law, ethics, capacity building, openness and innovation, sustainable development, sound financial management, accountability of officials, respect for human rights and diversity of cultures, both in the public and private sectors.

Summary of programs invested by the Company for the benefit of the society:

1. Building human capacity

As part of its social and economic responsibility strategy, Markaz supported a series of programs in cooperation with civil society organizations and authorities. The most important of these focused on the development of human capabilities by supporting small and medium sized enterprises through the incubator "Fikra" for Kuwaiti entrepreneurs. We also cooperated with the Public Authority for Investment to qualify middle and small real estate appraisal companies in the real estate market. In a belief in the importance of education, Markaz sponsored the 10th CFA Certification Ceremony, the 5th Professional Accounting and Auditing Conference, students of the College of Engineering and Petroleum and the Indian Public School. In addition, Markaz launched the vocational training and placement program for the training of new graduates enable them to qualify in the labor market. The Company also participated in the Kuwait Alumni Association Conference discussing "The Education Sector and its Role in Creating Jobs and Diversifying Income Sources" and the first Institutional Education Conference organized by the Manpower and Government Restructuring Program. Markaz continued to support the cultural activities of Loyac, as well as Nuqat. In the field of sports, Markaz sponsored the Kuwait Tennis Federation and the Loyac Football Academy managed in cooperation with AC Milan. In the field of health, the Company has been a constant supporter of the Kuwait Children's Care Society (KACCH), the Children's Cancer Center of Lebanon (CCCL), the Kuwait Red Crescent Society, the Hope Charity Foundation, as well as supported the Speech and Language Center in Kuwait.

2. Aligning the business environment with the principles of sustainable development

As part of its economic responsibility which aligns the business environment with the best corporate governance standards, Markaz was the first to publish research to increase knowledge of the financial sector. A special section was devoted to these research papers, which present practical policies that can be implemented in Kuwait and the region in the areas of energy, workforce, economic structure and the public sector. These research documents are also shared with the wider public and decision makers in Kuwait and concerned parties, to engage discussions on their findings and arrive to practical solutions to improve the business environment and achieve through partnerships with international experts to achieve sustainable development, and partnerships with unions and civil society institutions. The Company is also constantly collaborating with world-renowned experts from major academic institutions such as the London School of Economics, Princeton University and Stavanger University in Norway to provide opportunities to explore global thoughts on issues of concern to the Kuwaiti economy. Markaz has as well participated in a workshop organized by Columbia University entitled "GCC Countries in the New Oil World".

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

- GCC online retail
- Real Estate Investment Trusts (REITs) in GCC
- Demographics and Kuwait Banking
- A series of reports on sectors in Saudi Arabia (petrochemicals, healthcare, insurance)
- A series of reports on the telecommunications sector in GCC
- A series of reports on investment institutions in GCC
- Impact of the electricity and water rates in Kuwait on the real estate sector and solutions to decrease the impact.

Markaz also called for the establishment of a "public policy center" to promote competitiveness and encourage research and studies, which was initiated with the General Secretariat of the Supreme Council for Planning and Development. The Company held a series of seminars for its clients and market experts, including a presentation on "Investing in the US real estate market" to discuss investment opportunities and risks in the US market, in addition to lecture on "Demographic and the banking sector in Kuwait" in cooperation with the

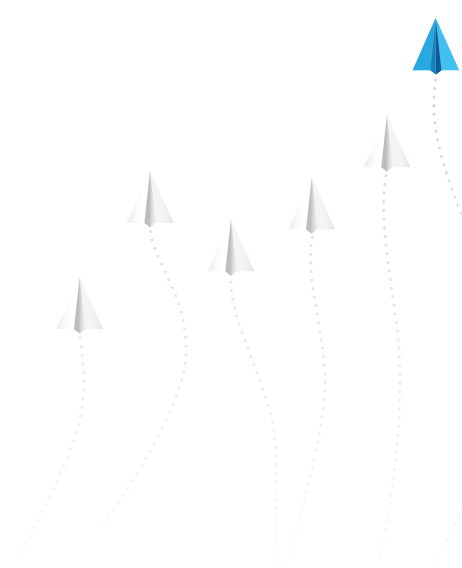
Kuwait Banking Association. Markaz also took part of the second "Markets Analyses" Conference in collaboration with RSM Albazie & Co., discussing global economic trends and GCC economies in particular.

As part of its partnership with economic associations and civil society organizations, Markaz continued to cooperate with the Kuwait Economic Society, an independent non-governmental organization established in Kuwait in 1970. The cooperation focuses on activating the principles of governance in state institutions. Markaz also sponsored the "Kuwait Tour to Communicate with Foreign Investor" organized by the Kuwait Direct Investment Promotion Authority (KDIPA) which started in London and continues to Silicon Valley and Singapore. The Company also sponsored the Kuwait Financial Forum in cooperation with the Kuwait Banking Association and continued its cooperation with the Kuwait Foundation for the Advancement of Sciences (KFAS) in a study at the request of the Foundation entitled "Identifying priority sectors in Kuwait". The results were then presented to a group of specialists and experts from various institutions and organizations. Markaz also participated in a panel discussion on the financial and investment services sector in Kuwait in cooperation with KFAS.

Markaz contributed to the establishment of the Union of Investment Companies in 2004, cooperating with the Union in initiatives aimed at improving the regulatory environment in the investment sector in general. These initiatives included papers and recommendations on draft legislations and proposals for public institutions. In collaboration with the Kuwait Chamber of Commerce and Industry, the Union and Markaz initiated recommendations on draft legislations and proposals to the Kuwaiti National Assembly and concerned public institutions, and organized lectures and seminars hosting international experts. The Company also sponsored the Gulf Capital Markets and Debt Summit organized by the Gulf Bonds and Sukuk Association.

3. Promoting sound governance in the business environment

Complying with the principles of sound governance in business, Markaz continued to cooperate with the Kuwait Economic Society through the "Towards a Reform in the Public Sector in Kuwait" initiative, which aimed at bringing reforms, and create "islands of efficiency" in the public sector. The initiative resulted in a series of seminars, workshops and publications that formed a charter and reference for decision makers on the foundations of applying governance in the public sector. The Administrative Reform in the Public Sector also translated into a series of training courses in collaboration with key institutions to discuss the most important topics under the theme "Governance and its importance in promoting good practices in public sector institutions". Markaz also participated in the 2nd GCC Governance Conference to discuss the need for a comprehensive rethinking of the public sector bureaucracy to enhance efficiency and productivity. The Company also participated in the UNDP National Meeting for Consultation with the Private Sector, which discussed the importance of creating a platform that facilitates transparent communication, the organization among public sector institutions, as well as the best global practices to improve Kuwait's Development Plan.



Consolidated Financial Statements

Index

Independent Auditors' Report

To the Shareholders of Kuwait Financial Centre - KPSC Kuwait

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kuwait Financial Centre - Kuwaiti Public Shareholding Company (the "Parent Company") and Subsidiaries, (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below as the key audit matters.

Valuation of financial instruments carried at fair value

At 31 December 2017, the Group has financial instruments classified as Available for Sale (AFS) investments and carried at fair value. These AFS investments include investments in private equity participation amounting to KD13,634 thousand (2016: KD11,050 thousand) as disclosed in note 18 which represent 8% (2016: 7%) of the total assets. In determining the fair value of these investments, often there is significant measurement uncertainty as these have been based on the valuation models that are primarily dependent on the nature of the underlying assets in those investments and discount rate etc. The Group's policy on fair value estimation and related fair value disclosures are given in notes 5.11 and 35 respectively to the consolidated financial statements.

Our audit procedures included, among others, verifying the appropriateness of the models used by the management and the reliability of the data that was used as input to these models such as valuation information provided by the underlying general partners or administrators of the private equity investments, We also verified the appropriateness of adjustments, if any, made by the Group to these amounts to substantiate that the investee's fair values was determined in accordance with IFRS 13 fair value measurement. We also verified the accuracy of the prior period valuations to the respective audited financial statements of the investees to assess the historical accuracy of the valuation estimates.

Management fee and commission

The Group manages various funds and portfolios on a fiduciary basis for its customers. In addition, the Group provides corporate advisory and other financial services to clients in debt and capital markets. The Group recognized management fee and commission arising from these services of KD7,302 thousand (31 December 2016: KD7,782 thousand) for the year ended 31 December 2017 as disclosed in the consolidated statement of profit or loss. The recognition of management fees, performance fees and commission is dependent on the terms of the underlying management contracts and corporate advisory mandates agreed between the Group and its clients and/or the funds it manages. Management fees is calculated as a percentage of net asset value of the Assets Under Management and varies across different funds and products. Management fee income is computed by applying the rate agreed contractually with its customers to the net asset value of these portfolios. The Group's policy on revenue recognition is disclosed in note 5.3 to the consolidated financial statements.

Independent Auditors' Report (continued)

To the Shareholders of Kuwait Financial Centre - KPSC Kuwait

Key Audit Matters (continued)

Management fee and commission (continued)

Our audit procedures included evaluating the design and implementation of controls management has put in place over valuing underlying fiduciary assets and testing the operating effectiveness of those controls. We have also selected samples of portfolios under management and verified if the underlying assets in those portfolios are fair valued based on market quotes as of the year-end date. We have also re-computed the related management fee on the selected sample of portfolios by applying the contractually agreed management fee with the customers on the fair value of those portfolios.

Other Information included in the Group's 2017 annual report

Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Group for the year ended 31 December 2017, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2017 after the date of our auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted for used by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's

use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No 1 of 2016 and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law, the Executive Regulations, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2017 that might have had a material effect on the business or financial position of the Parent Company.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, or of the provisions of Law No. 7 of 2010, concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2017 that might have had a material effect on the business or on its financial position of the Parent Company.

Anwar Y. Al-Qatami, F.C.C.A.
(Licence No. 50-A)
of Grant Thornton - Al-Qatami, Al-Aiban & Partners

Bader A. Al-Wazzan
(Licence No. 62-A)
of Deloitte & Touche - Al-Wazzan & Co.

6 February 2018 - Kuwait

Consolidated Statement of Profit or Loss

	Notes	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Revenue			
Interest income	8	**722**	671
Dividend income		**1,283**	1,091
Management fees and commission	9	**7,302**	7,782
Gain from investments at fair value through profit or loss	10	**3,340**	622
Gain on redemption/sale of available for sale investments		**2,733**	2,437
Gain on liquidation of subsidiaries	7	**48**	-
Share of results of associate and joint venture	19	**(153)**	(151)
(Loss)/gain on sale of investment properties	20	**(405)**	490
Net rental income		**490**	416
Foreign currency exchange gain		**25**	545
Other income		**14**	23
		15,399	13,926
Expenses and other charges			
General and administrative expenses	11	**(8,273)**	(7,757)
Finance costs	12	**(1,502)**	(1,258)
Reversal of provision for credit losses	17	**1**	3
Other expenses		**(21)**	(177)
Impairment of available for sale investments	18	**(299)**	(171)
Impairment of investment properties	20	**(993)**	(451)
		(11,087)	(9,811)
Profit before provisions for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Directors' remuneration		**4,312**	4,115
Provision for contribution to KFAS		**(43)**	(39)
Provision for NLST		**(134)**	(124)
Provision for Zakat		**(53)**	(50)
Provision for Directors' remuneration	29	**(105)**	(84)
Profit for the year		**3,977**	3,818
Profit/(loss) for the year attributable to:			
Owners of the Parent Company		**4,428**	4,030
Non-controlling interests		**(451)**	(212)
Profit for the year		**3,977**	3,818
Basic and diluted earnings per share attributable to the owners of the Parent Company	13	**9 Fils**	8 Fils

The notes set out on pages 50 to 91 form an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and other Comprehensive Income

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Profit for the year	**3,977**	3,818
Other comprehensive loss:		
Items that will be reclassified subsequently to statement of profit or loss		
Available for sale investments:		
Net change in fair value arising during the year	**774**	(670)
Transferred to consolidated statement of profit or loss on redemption/sale	**(2,733)**	(2,437)
Transferred to consolidated statement of profit or loss on impairment	**299**	171
Foreign currency translation:		
Exchange differences arising on translation of foreign operations	**(477)**	78
Share of other comprehensive (loss)/income of associate and joint venture	**(19)**	5
Total other comprehensive loss	**(2,156)**	(2,853)
Total comprehensive income for the year	**1,821**	965
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Parent Company	**2,281**	1,342
Non-controlling interests	**(460)**	(377)
	1,821	965

The notes set out on pages 50 to 91 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Notes	**31 Dec. 2017 KD '000**	31 Dec. 2016 KD '000
Assets			
Cash and bank balances	14	**7,622**	12,237
Time deposits	14	**1,430**	9,857
Investments at fair value through profit or loss	15	**49,498**	48,033
Accounts receivable and other assets	16	**7,131**	5,317
Loans to customers	17	**272**	253
Available for sale investments	18	**49,842**	41,870
Investment in associate and joint venture	19	**3,231**	3,002
Investment properties	20	**46,450**	35,745
Equipment		**631**	434
Total assets		**166,107**	156,748
Liabilities and equity			
Liabilities			
Accounts payable and other liabilities	21	**10,309**	8,327
Bank borrowings	22	**17,516**	8,146
Bonds issued	23	**25,000**	25,000
Total liabilities		**52,825**	41,473
Equity			
Share capital	24	**48,080**	48,080
Share premium	25	**7,902**	7,902
Statutory reserve	26	**15,756**	15,280
Voluntary reserve	26	**14,111**	13,635
Other components of equity	27	**2,890**	5,037
Retained earnings		**3,679**	3,341
Equity attributable to the owners of the Parent Company		**92,418**	93,275
Non-controlling interests	7	**20,864**	22,000
Total equity		**113,282**	115,275
Total liabilities and equity		**166,107**	156,748

Diraar Yusuf Alghanim
Chairman

Manaf AbdulAziz Alhajeri
Chief Executive Officer

The notes set out on pages 50 to 91 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
OPERATING ACTIVITIES			
Profit for the year		3,977	3,818
Adjustments for:			
Interest income		(722)	(671)
Dividend income		(1,283)	(1,091)
Depreciation		388	340
Gain on redemption/sale of available for sale investments		(2,733)	(2,437)
Gain on liquidation of subsidiaries		(48)	-
Share of results of associate and joint venture		153	151
Loss/(gain) on sale of investment properties		405	(490)
Impairment of available for sale investments		299	171
Impairment of investment properties		993	451
Reversal of provision for credit losses		(1)	(3)
Finance costs		1,502	1,258
		2,930	1,497
Changes in operating assets and liabilities:			
Investments at fair value through profit or loss		(6,457)	(6,933)
Accounts receivable and other assets		(1,829)	(257)
Loans to customers		(19)	184
Accounts payable and other liabilities		1,959	1,926
Net cash used in operating activities		(3,416)	(3,583)
INVESTING ACTIVITIES			
Change in time deposits maturing after three months		31	(760)
Purchase of equipment		(361)	(307)
Proceeds from redemption/sale of available for sale investments		16,482	17,258
Purchase of available for sale investments		(23,680)	(6,011)
Addition to investment properties		(13,726)	(7,596)
Proceeds from sale of investment properties		1,279	1,286
Increase in investment in joint venture		(401)	(144)
Proceeds from liquidation of subsidiaries (net of cash and cash equivalent)		5,061	-
Dividend received from associate		-	86
Dividend income received		1,283	1,091
Interest income received		737	697
Net cash (used in)/from investing activities		(13,295)	5,600
FINANCING ACTIVITIES			
Dividend paid		(2,933)	(2,358)
Dividend paid to non-controlling interests shareholders		(34)	-
Proceeds from bank borrowings		14,517	2,395
Repayment of bank borrowings		(5,147)	(1,934)
Proceeds from issue of bonds issued		-	25,000
Repayment of bonds issued		-	(22,000)
Net change in non-controlling interests		(894)	4,511
Finance costs paid		(1,778)	(1,429)
Net cash from financing activities		3,731	4,185
(Decrease)/increase in cash and cash equivalents		(12,980)	6,202
Foreign currency adjustments		(31)	(166)
Cash and cash equivalents at the beginning of the year	14	21,237	15,201
Cash and cash equivalents at the end of the year	14	8,226	21,237

The notes set out on pages 50 to 91 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

	Equity attributable to the owners of the Parent Company			
	Share capital KD '000	Share premium KD '000	Statutory reserve KD '000	Voluntary reserve KD '000
Balance at 1 January 2017	**48,080**	**7,902**	**15,280**	**13,635**
Net change in non-controlling interests	-	-	-	-
Effect arising on liquidation of subsidiaries (refer note 7)	-	-	-	-
Effect of change in ownership percentage of subsidiaries (refer note 7)	-	-	-	-
Payment of cash dividend (refer note 28)	-	-	-	-
Payment of cash dividend to non-controlling interests share holders	-	-	-	-
Transactions with owners	-	-	-	-
Profit/(loss) for the year	-	-	-	-
Total other comprehensive loss	-	-	-	-
Total comprehensive (loss)/income for the year	-	-	-	-
Transfer to reserves	-	-	476	476
Balance at 31 December 2017	**48,080**	**7,902**	**15,756**	**14,111**

	Equity attributable to the owners of the Parent Company			
	Share capital KD '000	Share premium KD '000	Statutory reserve KD '000	Voluntary reserve KD '000
Balance at 1 January 2016	53,130	7,902	14,847	14,793
Cancellation of treasury shares (refer note 28)	(5,050)	-	-	-
Loss on cancellation of treasury shares (refer note 28)	-	-	-	-
Net change in non-controlling interests	-	-	-	-
Effect of change in ownership percentage of subsidiaries	-	-	-	-
Payment of cash dividend	-	-	-	(1,591)
Transactions with owners	(5,050)	-	-	(1,591)
Profit/(loss) for the year	-	-	-	-
Total other comprehensive loss	-	-	-	-
Total comprehensive (loss)/income for the year	-	-	-	-
Transfer to reserves	-	-	433	433
Balance at 31 December 2016	48,080	7,902	15,280	13,635

The notes set out on pages 50 to 91 form an integral part of these consolidated financial statements.

Other components of equity (note 27) KD '000	Retained earnings KD '000	Sub Total KD '000	Non-controlling interests KD '000	Total KD '000
5,037	3,341	93,275	22,000	115,275
-	-	-	1,346	1,346
-	-	-	(2,241)	(2,241)
-	(253)	(253)	253	-
-	(2,885)	(2,885)	-	(2,885)
-	-	-	(34)	(34)
-	(3,138)	(3,138)	(676)	(3,814)
	4,428	4,428	(451)	3,977
(2,147)	-	(2,147)	(9)	(2,156)
(2,147)	4,428	2,281	(460)	1,821
-	(952)	-	-	-
2,890	3,679	92,418	20,864	113,282

Treasury shares KD '000	Treasury shares reserve KD '000	Other components of equity (note 27) KD '000	Retained earnings KD '000	Sub Total KD '000	Non-controlling interests KD '000	Total KD '000
(16,342)	7,973	7,725	4,132	94,160	18,043	112,203
5,050	-	-	-	-	-	-
11,292	(7,973)	-	(3,319)	-	-	-
-	-	-	-	-	4,511	4,511
-	-	-	177	177	(177)	-
-	-	-	(813)	(2,404)	-	(2,404)
16,342	(7,973)	-	(3,955)	(2,227)	4,334	2,107
-	-	-	4,030	4,030	(212)	3,818
-	-	(2,688)	-	(2,688)	(165)	(2,853)
-	-	(2,688)	4,030	1,342	(377)	965
-	-	-	(866)	-	-	-
-	-	5,037	3,341	93,275	22,000	115,275

Notes to the Consolidated Financial Statements

1. Incorporation and activities

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

The Extraordinary General Assembly held on 19 April 2017 approved the amendments to Parent Company's objectives and these amendments have been documented in the commercial register on 30 April 2017 and published in the official gazette on 30 April 2017.

The principal activities of the Parent Company are as follows:

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

The Parent Company may carry out similar or complementary or necessary or related to its above mentioned activities after getting the approval from the regulatory authorities.

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

The Parent Company's Board of Directors approved these consolidated financial statements for issue on 6 February 2018 and are subject to the approval of the General Assembly of the shareholders of the Parent Company.

2. Basis of preparation

The consolidated financial statements of the Group have been prepared under historical cost convention except for financial assets at fair value through profit or loss, financial assets available for sale and derivative financial instruments that have been measured at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional and presentation currency of the Parent Company and all values are rounded to the nearest thousand (KD '000), except when otherwise indicated.

3. Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, as modified for use by the Government of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all IFRSs 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 of 1% for cash facilities and 0.5% for non-cash facilities. These rates are to be applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period.

4. Changes in accounting policies

4.1 New and amended standards adopted by the Group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2017 which have been adopted by the Group but did not have any significant impact on the consolidated financial position or the results for the year. Information on these new standards which are relevant to the Group, is presented below:

Standard or Interpretation	**Effective for annual periods beginning**
IAS 7 Statement of Cash Flows - Amendments	1 January 2017
IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses - Amendments	1 January 2017
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2017

IAS 7 Statement of Cash Flows - Amendments

The Amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and noncash changes):

- require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgement when determining the exact form and content of the disclosures needed to satisfy this requirement
- suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:
  - changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses
  - a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

The Group's liabilities arising from financing activities comprise of bank borrowings (note 22) and bonds issued (note 23). The application of the amendments did not have any significant impact on the consolidated financial statements of the Group.

IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses - Amendments

The Amendments to IAS 12 make the following changes:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The application of the amendments did not have any impact on the consolidated financial statements of the Group.

Annual Improvements to IFRSs 2014-2016 Cycle

Amendments to IFRS 12 - Clarifies the scope of IFRS 12 by specifying that its disclosure requirements (except for those in IFRS 12. B10-B16) apply to an entity's interests in a subsidiary, joint venture or an associate irrespective of whether they are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with IFRS 5.

The application of the amendments did not have any impact on the consolidated financial statements of the Group as none of the Group entities are classified as, or included in disposal group that is classified as held for sale.

4.2 IASB Standards issued but not yet effective

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Group.

Notes to the Consolidated Financial Statements (continued)

4. Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to be relevant to the Group's consolidated financial statements.

Standard or Interpretation	Effective for annual periods beginning
IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments	Effective date deferred indefinitely. Adoption is still permitted.
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
IAS 40 Investment Property - Amendments	1 January 2018
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IAS 28.	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23 Uncertainty over income tax treatments	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23	1 January 2019
Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied

IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments

The Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations).
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

IASB has postponed the effective date indefinitely until other projects are completed. However, early implementation is allowed. Management anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future should such transactions arise.

IFRS 9 Financial Instruments

The IASB published IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The main areas of expected impact are as follows:

- the classification and measurement of the financial assets based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed.
- an expected credit loss-based impairment will need to be recognised on the trade receivables and investments in debt-type assets currently classified as available for sale and held-to-maturity, unless classified as at fair value through profit or loss in accordance with the new criteria.
- it will no longer be possible to measure equity

investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be presented in profit or loss unless an irrevocable designation is made to present them in other comprehensive income.
- if the fair value option continues to be elected for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to own credit risk.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and Fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Further, the gains and losses on subsequent measurement of debt type financial instruments measured at Fair Value Through Other Comprehensive Income (FVOCI) will be recognised in equity and will be recycled to profit or loss on derecognition or reclassification.

However, gains or losses on subsequent measurement of equity type financial assets measured at FVOCI will be recognised in equity and not recycled to profit or loss on derecognition. Dividend income on these assets will continue to be recognised in profit or loss.

Based on the analysis of the Group's financial assets and liabilities as at 31 December 2017 and of the circumstances that existed at that date, management of the Group expects that the impact of adoption of IFRS 9 on 1 January 2018 would be as follows:

Classification and measurement:

- Management holds most debt type financial assets to hold and collect the associated cash flows and, therefore, these are to continue to be accounted for at amortised cost. However, certain financial assets are likely to be measured at Fair Value Through Profit or Loss (FVTPL) as the cash flows are not solely payments of principal and interest.

  The Group's debt type financial assets mainly consist of trade receivables, due from related parties and cash and cash equivalent and these are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Management analysed the contractual cash flow characteristics of these instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

- Certain unlisted equity securities classified as available for sale investments amounting to KD9,466 thousand are carried at fair value and included under note 18 to the consolidated financial statements. These investments qualify for designation as measured at FVTOCI under IFRS 9; however, the fair value gains or losses accumulated in the fair valuation reserve will no longer be subsequently reclassified to profit or loss on de-recognition under IFRS 9, which is different from the current treatment. This will affect the amounts recognized in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income.

  Certain debt instruments classified as available for sale investments amounting to KD5,412 thousand are carried at fair value and included under note 18 to the consolidated financial statements. These are held within a business model whose objective is to collect the contractual cash flows that are solely payment of principle and interest on the principle outstanding. Accordingly, these financial assets will be classified as measured at amortized cost under IFRS 9, which is different from the current treatment.

  All other investments classified as available for sale investments amounting to KD34,964 thousand are carried at fair value and included under note 18 to the consolidated financial statements. These investments do not qualify to classify as measured at amortized cost or as FVTOCI under IFRS 9. Accordingly, these investments will be classified as measured at FVTPL under IFRS 9, which is different from the current treatment. This will affect the amounts recognized in the Group's fair value reserve and retained earnings and as such there will be no material impact on equity due to changes in these classification.

  The Group intends to continue same classification for investments at fair value through profit or loss under IFRS 9.

- There is no impact on the financial liabilities of the Group and will continue to be measured at amortised cost.

Notes to the Consolidated Financial Statements (continued)

4. Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

Impairment:

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, instalment credit loans and trade receivables, due from related parties either on a 12-month or lifetime basis. Instalment credit debtors are subject to the minimum provisioning requirements of the Central Bank of Kuwait. Management believes that the impairment allowance for the instalment credit debtors under the CBK requirements exceed the requirements of IFRS 9.

The Group expects to apply simplified approach to impairment for accounts receivable and due from related parties as required or permitted under the standard.

IFRS 15 Revenue from Contracts with Customers

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

The five steps in the model are as follows:
- Identify the contract with the customer.
- Identify the performance obligations in the contract
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contracts.
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard includes important guidance, such as
- Contracts involving the delivery of two or more goods or services - when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts.
- Timing - whether revenue is required to be recognized over time or at a single point in time.
- Variable pricing and credit risk - addressing how to treat arrangements with variable or contingent (e.g. performance-based) pricing, and introducing an overall constraint on revenue.
- Time value - when to adjust a contract price for a financing component.
- Specific issues, including:
  - non-cash consideration and asset exchanges.
  - contract costs.
  - rights of return and other customer options.
  - supplier repurchase options.
  - warranties.
  - principal versus agent.
  - licencing.
  - breakage.
  - non-refundable upfront fees, and.
  - consignment and bill-and-hold arrangements.

The Group has assessed the impact of IFRS 15. Based on the assessment, adoption of IFRS 15 is not expected to have any material effect on the Group’s consolidated financial statements.

IFRS 16 Leases

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

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

IFRS 40 Investment Property - Amendments

The Amendments to IAS 40 clarifies that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterise the list of circumstances appearing in paragraph 57(a)–(d) as a non-exhaustive list of examples of evidence that a change in use has occurred. The Board has also clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.

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

Annual Improvements to IFRSs 2014-2016 Cycle

Amendments to IAS 28 - Clarifies that a qualifying entity is able to choose between applying the equity method or measuring an investment in an associate or joint venture at fair value through profit or loss, separately for each associate or joint venture at initial recognition of the associate or joint venture. Amendment is effective for annual periods beginning on or after 1 January 2018.

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretations looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income. A diversity was observed in practice in circumstances in which an entity recognises a non-monetary liability arising from advance consideration. The diversity resulted from the fact that some entities were recognising revenue using the spot exchange rate at the date of the receipt of the advance consideration while others were using the spot exchange rate at the date that revenue was recognized. IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

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

IFRIC 23 Uncertainty over income tax treatments

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

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

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

5. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below.

5.1 Basis of consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and they are deconsolidated from the date that control ceases. The financial statements of the subsidiaries are prepared for reporting dates which are typically not more than three months from that of the Parent Company, using consistent accounting policies. Adjustments are made for the effect of any significant transactions or events that occur between that date and the reporting date of the Parent Company's financial statements. The details of the significant subsidiaries are set out in Note 7 to the consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)

5. Summary of significant accounting policies (continued)

5.1 Basis of consolidation (continued)

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the date the Group gains control, or until the date the Group ceases to control the subsidiary, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests. Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary.
- derecognizes the carrying amount of any non-controlling interests.
- derecognizes the cumulative translation differences, recorded in equity.
- recognizes the fair value of the consideration received
- recognizes the fair value of any investment retained
- recognizes any surplus or deficit in profit or loss.
- reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group has directly disposed of the related assets or liabilities.

5.1.1 Structured entities

The Group uses judgement in determining which entities are structured entities. If the voting or similar rights are not the dominant factor in deciding who controls the entity and such voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual arrangements, the Group identifies such entities as structured entities. After determining whether an entity is a structured entity, the Group determines whether it needs to consolidate this entity based on the consolidation principles of IFRS 10. The management of the Group has determined that it does not have any interest in unconsolidated structured entities as at the reporting date.

5.2 Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquire either at fair value or at the proportionate share of the acquire's identifiable net assets.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensives income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within other comprehensive income.

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 acquire and c) acquisition-date fair value of any existing equity interest in the acquire, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in the consolidated statement of profit or loss immediately.

5.3 Revenue recognition

Revenue arises from rendering of services, investing activities and real estate activities. It is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates and trade discounts.

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. The following specific recognition criteria should also be met before revenue is recognised;

5.3.1 Rendering of services

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

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

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

Fee income from providing transaction services

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

5.3.2 Interest income

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

5.3.3 Dividend income

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

5.3.4 Rental income

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

5.3.5 Revenue from sale of investment properties

Revenue from sale of investment properties is recognised on completion of sale contract and after transferring the risk and rewards associated with the real estate to the purchaser and the amount of revenue can be reliably measured.

5.4 Operating expenses

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

5.5 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

5.6 Taxation

5.6.1 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

5.6.2 National Labour Support Tax (NLST)

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the Group after deducting directors' fees for the year. As per law, income from listed associates and cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

Notes to the Consolidated Financial Statements (continued)

5. Summary of significant accounting policies (continued)

5.6 Taxation (continued)

5.6.3 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.

5.6.4 Taxation on overseas subsidiaries

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate.

5.7 Investment in associate

Associate is an entity over which the Group is able to exert significant influence but which is neither subsidiary nor joint venture. Investment in associate is initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the Group's share in the associate is not recognised separately and is included in the amount recognised as investment in associate.

Under the equity method, the carrying amount of the investment in associate is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealised gains and losses on transactions between the Group and its' associate are eliminated to the extent of the Group's interest in the entity. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

The share of results of an associate is shown on the face of the consolidated statements of profit or loss. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The difference in reporting dates of the associate and the Group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

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

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in the consolidated statement of profit or loss.

5.8 Investment in joint venture

A joint arrangement is a contractual arrangement that gives two or more parties joint control. Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decision about the relevant activities required unanimous consent of parties sharing control. A joint venture is a joint arrangement which by the parties that have the joint control of the arrangement have rights to the net assets of the arrangement. The Group recognises its interests in joint ventures as an investment and accounts for it using the equity method.

5.9 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including transaction costs, subsequently, investment properties are accounted for using the cost model whereby these investment properties are stated at cost less accumulated depreciation and impairment losses, if any. The Group depreciates its investment property except land on the straight-line method over their expected useful lives range of over 30-45 years for properties held outside Kuwait.

Investment properties are de-recognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

5.10 Equipment

Vehicles and other equipment are initially recognised at acquisition cost including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management.

Vehicles and other equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of vehicles and other equipment.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of equipment.

The following useful lives are applied:

- Office equipment and software : 3 to 5 years
- Vehicles : 3 to 4 years
- Furniture and fixtures : 7 to 10 years
- Decorations : 7 years

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

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

5.11 Financial instruments

5.11.1 Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value.

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

A financial asset (or, where applicable a part of financial asset or part of Group of similar financial assets) is derecognised when:

- rights to receive cash flows from the assets have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either:
  - the Group has transferred substantially all the risks and rewards of the asset or
  - the Group has neither transferred nor retained substantially all risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass- through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When 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 the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements (continued)

5. Summary of significant accounting policies (continued)

5.11 Financial instruments (continued)

5.11.2 Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables.
- financial assets at fair value through profit or loss (FVTPL).
- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a Group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All material income and expenses relating to financial assets that are recognised in the consolidated statement of profit or loss are presented within interest & other income or under a separate heading in the consolidated statement of profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in Groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

The Group categorises loans and receivables into following categories:

Loans and advances

Loans and advances are financial assets originated by the Group by providing money directly to the borrower that have fixed or determinable payments and are not quoted in an active market.

Accounts receivable and other assets

Receivables are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, together with time deposits that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial assets at FVTPL

Classification of investments as financial assets at FVTPL depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable 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 as designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognised in the consolidated statement of profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in the consolidated statement of profit or loss. All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the fair value reserve within equity, except for impairment losses, and foreign exchange differences on monetary assets, which are recognised in the consolidated statement of profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to the consolidated statement of profit or loss and presented as a reclassification adjustment within other comprehensive income.

The Group assesses at each reporting date whether there is objective evidence that a financial asset available for sale or a Group of financial assets available for sale is impaired. In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss is removed from other comprehensive income and recognised in the consolidated statement of profit or loss.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in the consolidated statement of profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

5.11.3 Classification and subsequent measurement of financial liabilities

The Group’s financial liabilities include borrowings, accounts payable and other liabilities, bonds and derivatives financial instruments.

The subsequent measurement of financial liabilities depends on their classification as follows:

Accounts payable and other liabilities

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Borrowings

All borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Murabaha payables

Murabaha payables represent amount payable on deferred settlement basis for assets purchases under murabaha arrangements. Murabaha payables are stated at the contractual amount payable, less deferred profit payable. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

Bonds

Bonds are carried on the consolidated statement of financial position at their principal amount, net of directly related costs of issuing the bonds to the extent that such costs have not been amortised. These costs are amortised through the consolidated statement of profit or loss over the life of the bonds using the effective interest rate method.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTSI.

All interest-related charges and, if applicable, changes in an instrument’s fair value that are reported in consolidated statement of profit or loss, are included within finance costs or finance income.

Derivative financial instruments and hedge accounting

Derivative financial instruments are accounted for at FVTSI 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.

Notes to the Consolidated Financial Statements (continued)

5. Summary of significant accounting policies (continued)

5.11 Financial instruments (continued)

5.11.3 Classification and subsequent measurement of financial liabilities (continued)

Derivative financial instruments and hedge accounting (continued)

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

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

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

Note 33 sets out details of the fair values of the derivative instruments.

5.12 Impairment testing of non-financial assets

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

5.13 Amortised cost of financial instruments

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

5.14 Offsetting of financial instruments

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

5.15 Fair value of financial instruments

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 35.

5.16 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued and paid up.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Statutory and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the companies' law and the Parent Company's articles of association.

Other components of equity include the following:

- foreign currency translation reserve - comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into Kuwait Dinars.
- Change in fair value reserve - comprises gains and losses relating to available for sale financial assets.

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

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

5.17 Treasury shares

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

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

5.18 Provisions, contingent assets and contingent liabilities

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

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

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

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

5.19 Foreign currency translation

5.19.1 Foreign currency transactions

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

5.19.2 Foreign operations

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

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to the consolidated statement of profit or loss and are recognised as part of the gain or loss on disposal.

Notes to the Consolidated Financial Statements (continued)

5. Summary of significant accounting policies (continued)

5.20 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.

In addition to the end of service benefits with respect to its Kuwaiti national employees, the Group also makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

5.21 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.

5.22 Segment reporting

The Group has two operating segments: the asset management and investment banking. In identifying these operating segments, management generally follows the Group's service lines representing its main services. Each of these operating segments is managed separately as each requires different approaches and other resources.

For management purposes, the Group uses the same measurement policies as those used in its financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

6. Significant management judgements and estimation uncertainty

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

6.1 Significant management judgments

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

6.1.1 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 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 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.

6.1.2 Classification of real estate

Management decides on acquisition of a real estate whether it should be classified as trading, property held for development or investment property.

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

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

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

6.1.3 Control assessment

When determining control, management considers whether the Group has the practical ability to direct the relevant activities of an investee on its own to generate returns for itself. The assessment of relevant activities and ability to use its power to affect variable return requires considerable judgement.

6.2 Estimates uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

6.2.1 Impairment of associate and joint venture

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

6.2.2 Impairment of available for sale equity 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.

6.2.3 Impairment of receivables

An estimate of the collectible amount of receivables 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.

6.2.4 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.

6.2.5 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.

6.2.6 Fair value of financial instruments

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer note 35).

Notes to the Consolidated Financial Statements (continued)

7. Subsidiary companies

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

Name of the subsidiary	Country of incorporation	Ownership percentage		Principal activity
		31 Dec. 2017 %	31 Dec. 2016 %	
Mar-Gulf Management Inc.	USA	**100.00**	100.00	Assets management
Markaz First Management and Economic Consultancy Company - KSCC	Kuwait	**95.00**	95.00	Economic consultancy
Markaz Fixed Income Fund (note 7.1.1)	Kuwait	**78.21**	73.66	Investment Fund
Markaz Mena Islamic Fund (note 7.1.2)	Kuwait	**100.00**	75.00	Investment Fund
Mawazeen International Fund (note 7.1.4)	Kuwait	**-**	58.95	Investment Fund
MDI Holding Limited (note 7.1.4)	Cayman Islands	**-**	66.66	Property management
MDI Management Limited	Cayman Islands	**66.66**	66.66	Property management
MDI Ventures Ltd	Cayman Islands	**50.00**	50.00	Property management
Markaz Offshore I Ltd.	Cayman Islands	**100.00**	100.00	Investment
Marmore Mena Intelligence Private Limited	India	**98.73**	98.73	Consultancy
Aradi Development Limited	Cayman Islands	**96.89**	96.89	Real Estate
Markaz Real Estate Investment Company WLL	KSA	**100.00**	100.00	Real Estate
Rimal Venture Company WLL	Bahrain	**100.00**	100.00	Assets management
Markaz Arabian Fund (note 7.1.1)	Bahrain	**58.92**	58.17	Investment Fund
Arab Gulf Real Estate Development Company WLL	Kuwait	**99.85**	99.85	Real Estate
Bay View Real Estate Company WLL	Kuwait	**99.85**	99.85	Real Estate
Boardwalk International Real Estate Company WLL	Kuwait	**99.85**	99.85	Real Estate
Al Rihab Real Estate Development Company WLL	Kuwait	**99.85**	99.85	Real Estate
Al Bandriya Real Estate Company WLL	Kuwait	**99.85**	99.85	Real Estate
Sand Park Real Estate Co. SPC (note 7.1.3)	Kuwait	**100.00**	-	Real Estate

7.1.1 The ownership of Markaz Fixed Income Fund increased by 4.55% and Markaz Arabian Fund increased by 0.75% due to changes in units held by non-controlling interest holders as a result of addition and redemption of the fund's units. These changes in the ownership resulted in a net loss of KD253 thousand which was included in the consolidated statement of changes in equity.

7.1.2 On 19 July 2017 one of the unit holders of Markaz Mena Islamic Fund ("the Fund") redeemed their entire unit holding in the Fund representing 25% of the Fund's total outstanding units, resulting in the increase in the Parent Company's ("Fund Manager") holding to 100% of the Fund's outstanding units. This is in accordance with the Fund's Articles of Association.

7.1.3 During the year, the Group has incorporated this subsidiary.

7.1.4 Liquidation of subsidiaries
During the year, the Group has liquidated its 58.95% owned subsidiary fund "Mawazeen International Fund". The Parent Company received a total consideration of KD3,268 thousand from the liquidation and the resulting gain of KD43 thousand was recognised in the consolidated statement of profit or loss for the year.

The details of the share of proceeds from the liquidation of subsidiary fund are as follows:

	KD '000
Investments at fair value through profit or loss	4,992
Cash and cash equivalents	478
Accounts payable and other liabilities	(4)
Net assets value at the date of liquidation	5,466
Net assets value attributable to the non-controlling interests	(2,241)
Net assets value attributable to owners of the Parent Company	3,225
Total consideration received (excluding cash and cash equivalents)	5,066
Add: cash and cash equivalents	478
Total consideration received (including cash and cash equivalents)	5,544
Total consideration received (including cash and cash equivalents) attributable to the owners of the Parent Company	3,268

Gain recognised by the Group from the liquidation proceeds is as follows:

	KD '000
Total consideration received	3,268
Net assets value at the date of liquidation	(3,225)
Gain on liquidation of subsidiary	43

Further during the year, the Group has also liquidated its 66.66% owned subsidiary "MDI Holding Limited". The resulted gain of KD5 thousand was recognised in the consolidated statement of profit or loss for the year.

7.2 Subsidiaries with material non-controlling interests

The Group includes four subsidiaries, with material non-controlling interests (NCI):

Name	**Proportion of ownership interests and voting rights held by the NCI**		**(Loss)/profit allocated to NCI**		**Accumulated NCI**	
	31 Dec. 2017 %	31 Dec. 2016 %	**31 Dec. 2017 KD '000**	31 Dec. 2016 KD '000	**31 Dec. 2017 KD '000**	31 Dec. 2016 KD '000
Arab Gulf Real Estate Development Company WLL	**0.15**	0.15	**(157)**	(63)	**3,424**	2,290
Bay View Real Estate Company WLL	**0.15**	0.15	**(36)**	(200)	**4,920**	4,487
Markaz Arabian Fund	**41.08**	41.83	**65**	(20)	**4,101**	4,230
Al Rihab Real Estate Development Company WLL	**0.15**	0.15	**(78)**	(30)	**3,906**	2,160
Individually immaterial subsidiaries with non-controlling interests			**(245)**	101	**4,513**	8,833
			(451)	(212)	**20,864**	22,000

KD34 thousand dividend was paid to the NCI during the year (31 December 2016: Nil).

Notes to the Consolidated Financial Statements (continued)

7. Subsidiary companies (continued)

7.2 Subsidiaries with material non-controlling interests (continued)

Summarised financial information for Arab Gulf Real Estate Development Company WLL, before intra Group eliminations, is set out below:

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Non-current assets	**9,667**	5,625
Current assets	**1,004**	1,438
Total assets	**10,671**	7,063
Liabilities	**(3,459)**	(2,099)
Total liabilities	**(3,459)**	(2,099)
Equity attributable to the owners of the Parent Company	**3,788**	2,755
Non-controlling interests	**3,424**	2,209
Total equity	**7,212**	4,964

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Revenue	**-**	-
Loss for the year attributable to the owners of the Parent Company	**(166)**	(67)
Loss for the year attributable to NCI	**(157)**	(63)
Loss for the year	**(323)**	(130)
Total other comprehensive income	**86**	42
Total comprehensive loss for the year	**(237)**	(88)
Total comprehensive loss for the year attributable to the owners of the Parent Company	**(122)**	(45)
Total comprehensive loss for the year attributable to NCI	**(115)**	(43)
Total comprehensive loss for the year	**(237)**	(88)

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Net cash from/(used in) operating activities	**1,368**	(910)
Net cash used in investing activities	**(4,391)**	(1,453)
Net cash from financing activities	**3,007**	2,216
Net cash outflow	**(16)**	(147)

Summarised financial information for Bay View Real Estate Company WLL, before intra Group eliminations, is set out below:

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Non-current assets	11,956	6,441
Current assets	1,072	2,069
Total assets	13,028	8,510
Liabilities	(5,746)	(1,734)
Total liabilities	(5,746)	(1,734)
Equity attributable to the owners of the Parent Company	2,362	2,289
Non-controlling interests	4,920	4,487
Total equity	7,282	6,776

	2017 KD '000	2016 KD '000
Revenue	-	-
Loss for the year attributable to the owners of the Parent Company	(16)	(88)
Loss for the year attributable to NCI	(36)	(200)
Loss for the year	(52)	(288)
Total other comprehensive (loss)/income	(120)	67
Total comprehensive loss for the year	(172)	(221)
Total comprehensive loss for the year attributable to the owners of the parent company	(53)	(68)
Total comprehensive loss for the year attributable to NCI	(119)	(153)
Total comprehensive loss for the year	(172)	(221)

	2017 KD '000	2016 KD '000
Net cash from/(used in) operating activities	228	(1,100)
Net cash used in investing activities	(4,445)	(1,055)
Net cash from financing activities	4,752	3,131
Net cash inflow	535	976

Summarised financial information for Markaz Arabian Fund, before intra Group eliminations, is set out below:

	2017 KD '000	2016 KD '000
Current assets	10,035	10,218
Total assets	10,035	10,218
Liabilities	(53)	(107)
Total liabilities	(53)	(107)
Equity attributable to the owners of the Parent Company	5,881	5,881
Non-controlling interests	4,101	4,230
Total equity	9,982	10,111

Notes to the Consolidated Financial Statements (continued)

7. Subsidiary companies (continued)

7.2 Subsidiaries with material non-controlling interests (continued)

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Revenue	**384**	197
Profit/(loss) for the year attributable to the owners of the Parent Company	**92**	(28)
Profit/(loss) for the year attributable to NCI	**65**	(20)
Profit/(loss) for the year	**157**	(48)
Total other comprehensive income/(loss)	**38**	(21)
Total comprehensive income/(loss) for the year	**195**	(69)
Total comprehensive income/(loss) for the year attributable to the owners of the Parent Company	**115**	(40)
Total comprehensive income/(loss) for the year attributable to NCI	**80**	(29)
Total comprehensive income/(loss) for the year	**195**	(69)

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Net cash from operating activities	**439**	3,136
Net cash used in financing activities	**(129)**	(677)
Net cash inflow	**310**	2,459

Summarised financial information for Al Rihab Real Estate Development Company WLL, before intra Group eliminations, is set out below:

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Non-current assets	**8,500**	4,879
Current assets	**674**	709
Total assets	**9,174**	5,588
Liabilities	**(233)**	(308)
Total liabilities	**(233)**	(308)
Equity attributable to the owners of the Parent Company	**5,035**	3,120
Non-controlling interests	**3,906**	2,160
Total equity	**8,941**	5,280

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Revenue	-	-
Loss for the year attributable to the owners of the Parent Company	(106)	(42)
Loss for the year attributable to NCI	(78)	(30)
Loss for the year	(184)	(72)
Total other comprehensive loss	(98)	-
Total comprehensive loss for the year	(282)	(72)
Total comprehensive loss for the year attributable to the owners of the Parent Company	(161)	(42)
Total comprehensive loss for the year attributable to NCI	(121)	(30)
Total comprehensive loss for the year	(282)	(72)

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Net cash (used in)/from operating activities	(390)	3
Net cash used in investing activities	(3,623)	(4,876)
Net cash from financing activities	4,111	5,191
Net cash inflow	98	318

8. Interest income

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Time deposits	33	92
Investments at fair value through profit or loss	35	111
Available for sale investments	463	437
Loans to customers	17	16
Other	174	15
	722	671

9. Management fees and commission

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

10. Gain from investments at fair value through profit or loss

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Change in fair value of investments at fair value through profit or loss	2,410	1,264
Gain /(loss) on sale of investments at fair value through profit or loss	930	(642)
	3,340	622

Notes to the Consolidated Financial Statements (continued)

11. General and administrative expenses

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Staff costs	5,184	4,687
Depreciation	388	340
Other expenses	2,701	2,730
	8,273	7,757

12. Finance costs

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Bonds issued	1,243	1,045
Bank borrowings	259	213
	1,502	1,258

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

Basic and diluted earnings per share attributable to the owners of the Parent Company is calculated by dividing the profit for the year attributable to the owners of the Parent Company by the weighted average number of shares outstanding during the year.

	31 Dec. 2017	31 Dec. 2016
Profit for the year attributable to the owners of the Parent Company (KD '000)	4,428	4,030
Weighted average number of shares outstanding during the year	480,801,747	480,801,747
Basic and diluted earnings per share attributable to the ownersof the Parent Company	9 Fils	8 Fils

14. Cash and cash equivalents

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

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Cash and bank balances	7,622	12,237
Time deposits with banks	1,430	9,857
	9,052	22,094
Less: Time deposits maturing after three months	(826)	(857)
Cash and cash equivalent for the purpose of consolidated statement of cash flows	8,226	21,237

The Group's time deposits carry an average effective interest rate of 0.81% (31 December 2016: 1.25%) per annum.

15. Investments at fair value through profit or loss

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Trading:		
Local quoted securities	2,903	1,909
Foreign quoted securities	23,763	15,389
	26,666	17,298
Designated on initial recognition:		
Local managed funds	22,071	20,244
Foreign quoted securities	-	9,180
Fixed income securities	761	1,311
	22,832	30,735
	49,498	48,033

The interest rates on fixed income securities range from 7.00% to 9.00% (31 December 2016: 6.50% to 9.00%) per annum.

16. Accounts receivable and other assets

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Management fees and commission receivable	1,196	1,109
Prepayments	507	462
Advance payments	1,775	2,781
Due from a related party (refer note 29)	2,118	-
Interest receivable	77	92
Other receivables	1,458	873
	7,131	5,317

17. Loans to customers

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Personal loans	761	743
Provision for credit losses	(489)	(490)
	272	253

The maturity profile of loans to customers is as follows:

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Between one month and six months	3	4
Between six months and one year	3	12
Over one year	269	239
Non-performing loans	486	488
	761	743

Notes to the Consolidated Financial Statements (continued)

17. Loans to customers (continued)

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 KD486 thousand (31 December 2016: KD488 thousand).

The interest rate on personal loans ranged from 2.00% to 6.50% (2016: 2.00% to 6.50%) per annum. All loans are denominated in KD or US Dollars.

18. Available for sale investments

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Quoted securities	4,362	4,973
Unquoted securities	1,305	1,518
Managed funds	25,129	18,872
Equity participation	13,634	11,050
Debt instruments (a)	5,412	5,457
	49,842	41,870

a. Investment in debt instrument amounting to KD432 thousand (31 December 2016: KD446 thousand) are secured by charges over real estate properties and carry average interest rate of 7.25% (31 December 2016: 7.25%) per annum.
   Debt instruments include investment in sukuk amounting to KD4,974 thousand (31 December 2016: KD4,985 thousand) carrying profit rate of 2% above Central Bank of Kuwait discount rate (31 December 2016: 2% above Central Bank of Kuwait discount rate) per annum.
b. During the year, the Group recognised an impairment loss of KD299 thousand (31 December 2016: KD171 thousand) in respect of certain available for sale investments. Management has performed an analysis of the underlying investments which indicates that there is no further impairment.

19. Investment in associate and joint venture

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Investment in associate (refer note 19.1)	1,904	2,041
Investment in joint venture (refer note 19.2)	1,327	961
	3,231	3,002

19.1 The details of the Group's investment in associate are as follows:

Company name	Principal Activities	Place of incorporation	31 Dec. 2017 %	31 Dec. 2016 %	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000
First Equilease for Equipment and Transportation Company-KSCC (Unquoted)	Transportation and Renting	Kuwait	17.24	17.24	1,904	2,041
					1,904	2,041

The movement of investment in associate during the year is as follows:

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Carrying value at the beginning of the year	2,041	2,267
Share of results of associate	(128)	(145)
Share of other comprehensive (loss)/income	(9)	5
Dividend received	-	(86)
	1,904	2,041

19.2 The details of the Group's investment in joint venture are as follows:

Company name	Principal Activities	Place of incorporation	31 Dec. 2017 %	31 Dec. 2016 %	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000
MZES Gayrimenkul Alim Satim Company (Unquoted)	Real Estate	Turkey	50	50	1,327	961
					1,327	961

The movement of investment in joint venture during the year is as follows:

	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000
Carrying value at the beginning of the year	961	823
Additions during the year	401	144
Share of results of joint venture	(25)	(6)
Share of other comprehensive loss	(10)	-
	1,327	961

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

	First Equilease		MZES	
	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000
Non-current assets	1,590	2,458	2,488	1,814
Current assets	9,916	10,070	181	122
Non-current liabilities	(45)	(44)	-	-
Current liabilities	(180)	(287)	(15)	(14)
Non-controlling interests	(239)	(358)	-	-
Equity attributable to the owners of the Parent Company	11,042	11,839	2,654	1,922

Notes to the Consolidated Financial Statements (continued)

19. Investment in associate and joint venture (continued)

19.3 Summarised financial information of Group's associate and joint venture are set out below (continued):

	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000
Revenue	752	1,133	-	-
Loss for the year	(742)	(844)	(50)	(12)
Other comprehensive (loss)/income for the year	(52)	30	(20)	-

Reconciliation of the above summarised financial information of the associate and joint ventures with the carrying amount in the consolidated statement of financial position is given below:

	First Equilease		MZES	
	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000
Net assets of the associate and joint venture	11,042	11,839	2,654	1,922
Group's ownership interest (%)	17.24	17.24	50	50
Group's share of net assets	1,904	2,041	1,327	961
Carrying amount	1,904	2,041	1,327	961

The Group has accounted for its share of results of joint venture using management accounts as at 31 December 2017.

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

20. Investment properties

The movement in investment properties is as follows:

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

	Lands KD'000	Projects under development KD'000	Buildings KD'000	Total KD'000
31 December 2016				
Cost				
At 1 January 2016	19,881	6,952	2,474	29,307
Additions*	-	7,727	34	7,761
Transfer to building	(1,414)	(9,598)	11,012	-
Disposals	(540)	-	(279)	(819)
Impairment	(451)	-	-	(451)
Foreign currency adjustment	341	(116)	18	243
At 31 December 2016	17,817	4,965	13,259	36,041
Accumulated depreciation				
At 1 January 2016	-	-	(140)	(140)
Charge for the year	-	-	(179)	(179)
Relating to disposals	-	-	23	23
At 31 December 2016	-	-	(296)	(296)
Net book value				
At 31 December 2016	17,817	4,965	12,963	35,745

At 31 December 2017, the fair value of the investment properties is KD48,979 thousand (31 December 2016: KD39,688 thousand). Investment properties were revalued by independent evaluators using market comparable approach that reflects recent transaction prices for similar properties and is therefore classified under level 2. In estimating the fair value of investment properties, the highest and best use is their current use. There has been no change to the valuation technique during the year.

During the year, the Group recognised an impairment loss of KD993 thousand (31 December 2016: KD451 thousand) in respect of certain investment properties.

The Group sold certain investment properties in USA for aggregated sale consideration of KD1,279 thousand (31 December 2016: KD1,286 thousand) and realizing a loss of KD405 thousand (31 December 2016: gain of KD 490 thousand).

*During the year borrowing cost of KD336 thousand (2016: KD165 thousand) has been capitalised to investment properties under development.

The Groups investment properties are located as below:

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
North America	**392**	2,093
GCC	**46,058**	33,652
	46,450	35,745

Notes to the Consolidated Financial Statements (continued)

21. Accounts payable and other liabilities

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Accrued expenses	**2,405**	2,439
Post-employment benefits	**2,875**	2,293
Dividend payable	**362**	410
Payable to contractors	**2,787**	1,474
Other liabilities	**1,880**	1,711
	10,309	8,327

22. Bank borrowings

This represents following bank borrowings:

a. Unsecured loan facilities amounting to KD24,922 thousand obtained from local commercial banks carry interest rate ranging from 1.50% to 2.50% above Central Bank of Kuwait discount rate. Outstanding balance of this loan as at 31 December 2017 amounted to KD4,128 thousand (31 December 2016: KD1,747 thousand).

b. Murabaha facility was obtained from a local Islamic bank amounting to KD5,958 thousand (31 December 2016: KD4,979 thousand) with a profit rate of 1.5% above Central Bank of Kuwait discount rate and matured in January 2018 and further rolled over till July 2018.

c. An unsecured loan facility was obtained from a foreign commercial bank amounting to AED151,350 thousand equivalent to KD12,436 thousand and carries an interest rate of 3.25% to 3.50% above 3 month EIBOR. Outstanding balance of this loan as at 31 December 2017 amounted to AED68,577 thousand equivalent to KD5,635 thousand. (31 December 2016 AED17,017 thousand equivalents to KD1,420 thousand).

d. An unsecured credit facility amounting to USD 10 million was obtained from a foreign commercial bank which carries an interest rate of 2.88% per annum. Outstanding balance of this loan as at 31 December 2017 amounted to USD5,950 thousand equivalent to KD1,795 thousand.

23. Bonds issued

On 26 December 2016, the Parent Company issued unsecured debenture bonds in the principle amount of KD25,000 thousand as follows:

- KD13,550 thousand with a fixed rate of 5% payable quarterly in arrears maturing on 26 December 2021.
- KD11,450 thousand with variable rate of 2.25%, above Central Bank of Kuwait Discount rate, which is payable quarterly in arrears maturing on 26 December 2021.

24. Share capital

	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000
Authorised: 480,801,747 shares of 100 Kuwaiti Fils each	**48,080**	48,080
Issued and fully paid: 480,801,747 shares of 100 Kuwaiti Fils each	**48,080**	48,080

25. Share premium

Share premium is not available for distribution.

26. Reserves

The Companies Law and the Parent Company's Articles of Association require 10% of the profit for the year attributable to the owners of the Parent Company before KFAS, NLST, Zakat and Directors' remuneration is transferred to the statutory reserve. The shareholders of the Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

Distribution of statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

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

27. Other components of equity

	Fair value reserve KD'000	Foreign currency translation reserve KD'000	Total KD'000
Balance at 1 January 2017	**4,141**	**896**	**5,037**
Available for sale investments:			
Net change in fair value arising during the year	**769**	**-**	**769**
Transferred to consolidated statement of profit or loss on redemption/sale	**(2,732)**	**-**	**(2,732)**
Transferred to consolidated statement of profit or loss on impairment	**299**		**299**
Exchange differences arising on translation of foreign operations	**-**	**(464)**	**(464)**
Share of other comprehensive loss of associate and joint venture	**-**	**(19)**	**(19)**
Total other comprehensive loss	**(1,664)**	**(483)**	**(2,147)**
Balance at 31 December 2017	**2,477**	**413**	**2,890**
Balance at 1 January 2016	6,988	737	7,725
Available for sale investments:			
Net change in fair value arising during the year	(687)	-	(687)
Transferred to consolidated statement of profit or loss on redemption/sale	(2,331)	-	(2,331)
Transferred to consolidated statement of profit or loss on impairment	171	-	171
Exchange differences arising on translation of foreign operations	-	154	154
Share of other comprehensive income of associate	-	5	5
Total other comprehensive (loss)/income	(2,847)	159	(2,688)
Balance at 31 December 2016	4,141	896	5,037

Notes to the Consolidated Financial Statements (continued)

28. Proposed dividends and Annual General Assembly

The Board of Directors of the Parent Company has proposed a cash dividend of 7 Fils per share amounting to KD3,366 thousand for the year ended 31 December 2017. The proposed dividend is subject to the approval of the shareholders at the Parent Company's Annual General Assembly.

The Annual General Assembly of the shareholders held on 19 April 2017 approved cash dividend of 6 Fils per share amounting to KD2,885 thousand. Dividends were paid after the Annual General Assembly of the shareholders.

The Annual General Assembly of the Shareholders held on 9 May 2016 approved cash dividend of 5 Fils per share amounting to KD2,404 thousand for the year ended 31 December 2015 through utilization an amount of KD813 thousand from the retained earnings and an amount of KD1,591 thousand from the voluntary reserve as of 31 December 2015. Dividends were paid after the General Assembly of the shareholders.

The Extraordinary General Assembly Meeting of the Shareholders ("EGAM") held on the same date approved the reduction of share capital by KD5,050 thousand by cancellation of 50,498,253 treasury shares at nominal value of 100 Fils each. The loss on cancellation of treasury shares amounting to KD11,292 thousand was first adjusted against treasury shares reserve amounting to KD7,973 thousand and the balance amount of KD3,319 thousand adjusted against retained earnings.

29. Related party transactions

Related parties represent associate, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Details of transactions between the Group and other related parties are disclosed below.

During the year, the Group entities entered into the following transactions with related parties.

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Transactions included in the consolidated statement of profit or loss:		
Interest income on loans to customers	**4**	5
Management fees and commission	**4,653**	4,874
Key management compensation:		
Salaries and other short term benefits	**771**	745
End of service benefits	**184**	93
Audit committee fees	**15**	15
Board of Directors' remuneration	**105**	165
	1,075	1,018

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Balances included in the consolidated statement of financial position:		
Loans to customers	**32**	93
Accounts receivable and other assets	**723**	528
Due from a related party*	**2,118**	-
Accounts payable and other liabilities	**1,514**	1,313

* This represents a secured short term advance payment given to a related party with an interest rate of 6% per annum.

30. Segmental information

Operating segments are identified based on internal management reporting information that is regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance, and is reconciled to Group's profit or loss.

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

a. Asset management
- GCC and MENA investments
- International investments
- Private equity
- Real Estate

b. Investment banking
- Corporate finance & advisory
- Oil and gas
- Treasury
- Loans
- Structured finance and derivatives

	Asset Management		Investment Banking		Total	
	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000	**31 Dec. 2017 KD'000**	31 Dec. 2016 KD'000	**31 Dec. 2017 KD'000**	31 Dec. 2016 KD'000
Segment revenue	**13,759**	11,426	**1,640**	2,500	**15,399**	13,926
Segment result	**4,216**	3,313	**96**	802	**4,312**	4,115
Provisions for KFAS, NLST, Zakat and Board of Directors' remuneration	**(321)**	(246)	**(14)**	(51)	**(335)**	(297)
Profit for the year	**3,895**	3,067	**82**	751	**3,977**	3,818
Total assets	**142,102**	126,741	**24,005**	30,007	**166,107**	156,748
Total liabilities	**42,953**	32,684	**9,872**	8,789	**52,825**	41,473
Interest income	**145**	111	**577**	560	**722**	671
Finance costs	**(1,342)**	(1,019)	**(160)**	(239)	**(1,502)**	(1,258)
Depreciation	**(261)**	(236)	**(127)**	(104)	**(388)**	(340)
Impairment of available for sale investments	**(241)**	(163)	**(58)**	(8)	**(299)**	(171)
Purchase of equipment	**(60)**	(215)	**(301)**	(92)	**(361)**	(307)
Addition to investment properties	**(14,062)**	(7,761)	**-**	-	**(14,062)**	(7,761)

Segment income above represents income generated from external customers. There was no inter-segment income during the year and previous year.

For the purposes of monitoring segment performance and allocating resources between segments:
- There are no assets used jointly by any reportable segment.
- There are no liabilities for which any segment is jointly liable

31. Fiduciary accounts

The Group manages portfolios on behalf of others, mutual funds and maintains cash balances and securities in fiduciary accounts, which are not reflected in the consolidated statement of financial position. Assets under management at 31 December 2017 amounted to KD1,026,984 thousand (31 December 2016: KD934,787 thousand). The Group earned management fee of KD6,237 thousand (31 December 2016: KD6,346 thousand) from the asset management activities.

Notes to the Consolidated Financial Statements (continued)

32. Commitments

	31 Dec. 2017 KD '000	31 Dec. 2016 KD '000
Commitments for purchase of investments	4,018	3,978
Commitments for investment properties	16,606	30,343
Letters of guarantee	-	11
	20,624	34,332

33- Derivative financial instruments

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

		31 Dec. 2017		31 Dec. 2016
	Contractual amounts KD'000	Assets (liabilities) KD'000	Contractual amounts KD'000	Assets (liabilities) KD'000
Held for trading:				
Forward foreign exchange contracts	10,903	17	7,656	(52)

34. Risk management objectives and policies

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

The Board of Directors of the Parent Company is ultimately responsible for setting out risk strategies and objectives and policies for their management. The Group's risk management is carried out by the central risk management function and focuses on actively securing the Group's short to medium term cash flows by minimizing the potential adverse effects on the Group's financial performance through internal risk reports which analyse exposures by degree and magnitude of risks. Long term financial investments are managed to generate lasting returns.

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

34.1 Market risk

a. Foreign currency risk management

The Group mainly operates in the GCC, USA and other Middle Eastern countries and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar, Saudi Riyals and others. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To mitigate the Group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored and forward exchanged contracts are entered into in accordance with the Group's risk management policies. Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows. Where the amounts to be paid and received in specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward foreign contracts are mainly entered into for significant long-term foreign currency exposures that are not expected to be offset by other currency transactions

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

	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000
US Dollar	**28,695**	30,629
Saudi Riyals	**5,320**	5,374
Others	**1,564**	805

Foreign currency sensitivity is determined based on 2% (31 December 2016: 2%) increase or decrease in exchange rate. These has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

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

	31 Dec. 2017		31 Dec. 2016	
	+ 2% KD'000	**- 2% KD'000**	+ 2% KD'000	- 2% KD'000
Profit or the year	**712**	**(712)**	736	(736)

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

b. Interest and profit rate risk

Interest and profit rate risk arises from the possibility that changes in interest and profit rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest and profit rate risk principally on its deposits, investments, bonds and borrowings which carry interest and profit at commercial rates. However, a reasonable possible change in interest rates would not have a significant impact on the Group's consolidated financial statements. The Board has established levels of interest and profit rate risk by setting limits on the interest and profit rate gaps for stipulated periods.

Provisions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

c. Equity price risk

This is a risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market. The Group is exposed to equity price risk with respect to its listed equity investments which are primarily located in Kuwait, USA, and GCC. Equity investments are classified either as "investments at fair value through profit or loss" or "available for sale investments".

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits determined by the Group. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

Notes to the Consolidated Financial Statements (continued)

34. Risk management objectives and policies (continued)

34.1 Market risk (continued)

c. Equity price risk (continued)

The equity price risk sensitivity is determined on the exposure to equity price risks at the reporting date. If equity prices had been 2% higher/lower, the effect on the profit for the year and equity would have been as follows:

	Profit for the year		Equity	
	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000	**31 Dec. 2017 KD'000**	31 Dec. 2016 KD'000
Investments at fair value through profit or loss	**±533**	±343	**-**	-
Available for sale investments	**-**	-	**±87**	±99

The Group's sensitivity to price risk in regards to its unquoted investments cannot be reliably determined due to numerous uncertainties and non-available of reliable information to determine future price of such investments.

34.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group credit policy and exposure to credit risk is monitored on an ongoing basis. The Group seeks to avoid undue concentrations of risks with individuals or Groups of customers in specific locations or business through diversification of its activities. It also obtains security when appropriate.

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

	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000
Bank balances	**7,620**	12,235
Time deposits	**1,430**	9,857
Accounts receivable and other assets (excluding prepayment and advance payments)	**4,849**	2,074
Investments at fair value through profit or loss	**22,832**	21,555
Loans to customers	**272**	253
Available for sale investments	**30,541**	24,329
	67,544	70,303

Except for loans to customers referred to in note 17 and available for sale investments referred to in note 18, none of the above financial assets are past due or impaired. The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. The Group's management considers that all the above financial assets that are neither past due nor impaired for each of the reporting dates under review are of good credit quality.

In respect of receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty. The credit risk for cash and bank balance and term deposits is considered negligible, since the counterparties are reputable financial institutions with high credit quality. Information on other significant concentrations of credit risk is set out in note 34.3.

34.3 Concentration of assets

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

	31 Dec. 2017 KD'000	31 Dec. 2016 KD '000
Kuwait	**49,494**	53,239
North America	**4,489**	7,492
GCC	**2,484**	6,619
Europe	**10,272**	2,725
Others	**805**	228
	67,544	70,303

34.4 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the Group's financial liabilities based on the remaining period at the financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Upto 1 month KD'000	Upto 1-3 months KD'000	3-12 months KD'000	1 to 5 years KD'000	Total KD'000	Weighted average effective interest rate %
31 December 2017						
Financial liabilities						
Accounts payable and other liabilities	**2,717**	**1,681**	**3,036**	**-**	**7,434**	
Bank borrowings	**9,754**	**240**	**2,312**	**5,890**	**18,196**	**2.9% to 5.3%**
Bonds issued	**-**	**313**	**938**	**28,750**	**30,001**	**5%**
	12,471	**2,234**	**6,286**	**34,640**	**55,631**	
31 December 2016						
Financial liabilities						
Accounts payable and other liabilities	1,489	1,331	2,496	718	6,034	
Bank borrowings	4,987	37	113	3,306	8,443	4% to 5%
Bonds issued	-	305	916	31,107	32,328	4.75% to 5%
	6,476	1,673	3,525	35,131	46,805	

Notes to the Consolidated Financial Statements (continued)

34. Risk management objectives and policies (continued)

34.4 Liquidity risk (continued)

Maturity profile of assets and liabilities at 31 December 2017:

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

Maturity profile of assets and liabilities at 31 December 2016:

	Within 1 year KD'000	Over 1 year KD'000	Total KD'000
Assets			
Cash and bank balances	12,237	-	12,237
Time deposits	9,857	-	9,857
Investments at fair value through profit or loss	48,033	-	48,033
Accounts receivable and other assets	3,766	1,551	5,317
Loans to customers	16	237	253
Available for sale investments	-	41,870	41,870
Investment in associate and joint venture	-	3,002	3,002
Investment properties	-	35,745	35,745
Equipment	-	434	434
	73,909	82,839	156,748
Liabilities			
Accounts payable and other liabilities	5,316	3,011	8,327
Bank borrowings	4,979	3,167	8,146
Bonds issued	-	25,000	25,000
	10,295	31,178	41,473

34.5 Structured entities (Special Purpose Vehicle)

The Group has created certain Special Purpose Vehicles (SPVs) for the Group's asset management activities. These SPVs are used to raise funds from the Group's clients on the basis of product offering documents with eventual objectives of investments in specified asset classes as defined in the offering documents of the SPVs. These SPVs are managed on a fiduciary basis by the Group's asset management teams and as the Group does not control these SPVs as at the reporting date in accordance with the definition of control in IFRS 10, these SPVs are not consolidated into the Group's consolidated financial statements.

The Group's investments in SPV are subject to the terms and conditions of the respective SPV's offering documentation and, are susceptible to market price risk arising from uncertainties about future values of SPV's underlying assets.

The exposure to investments in SPVs at fair value, by strategy employed, is disclosed in the following table.

These investments are included in available for sale investments in the statement of consolidated financial position.

Funding Strategy	Type of activities	Number of SPVs	Fair value of Group's investment SPVs	% of Net asset attributable to Group
Equity	Investment in real estate	9	8,026	27.25%

The Group's interest in terms of units held in these SPV's are included in available for sale investments amounting to KD8,026 thousand (2016: KD2,489 thousand). The Group earned management fees amounting to KD 270 thousand (2016: KD168 thousand) from these SPV's and are included in management fees income.

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

35.1 Categories of financial assets and liabilities

The carrying amounts of the Group's financial assets and liabilities as stated in the consolidated statement of financial position are as follows:

	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000
Financial assets:		
Loans and receivables at amortised cost:		
Cash and cash equivalents	9,052	22,094
Accounts receivable and other assets (excluding prepayment and advance payments)	4,832	2,074
Loans to customers	272	253
Investments at fair value through profit or loss:		
At fair value	49,498	47,688
At cost	-	345
Available for sale investments:		
At fair value	49,842	41,870
Derivative financial instruments		
At fair value	17	-
Total financial assets	113,513	114,324
Financial liabilities:		
Financial liabilities at amortised cost:		
Accounts payable and other liabilities	10,309	8,275
Bank borrowings	17,516	8,146
Bonds issued	25,000	25,000
Derivative financial instruments		
At fair value	-	52
Total financial liabilities	52,825	41,473

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

Notes to the Consolidated Financial Statements (continued)

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

35.2 Fair value hierarchy

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial assets and financial liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	KD'000			
31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments at fair value through profit or loss				
Quoted securities	26,666	-	-	26,666
Managed funds-GCC	-	22,071	-	22,071
Fixed income securities	761	-	-	761
	27,427	22,071	-	49,498
Derivative				
Forward foreign currency contracts held for trading	-	17	-	17
Available for sale investments				
Quoted securities	4,362	-	-	4,362
Managed funds				
GCC	-	14,427	-	14,427
Others	-	10,702	-	10,702
Debt instruments	-	-	5,412	5,412
Equity participations	-	-	13,634	13,634
Unquoted securities	-	-	1,305	1,305
	4,362	25,129	20,351	49,842
	31,789	47,217	20,351	99,357

31 December 2016	KD'000 Level 1	Level 2	Level 3	Total
Investments at fair value through profit or loss				
Quoted securities	26,478	-	-	26,478
Managed funds-GCC	-	20,244	-	20,244
Fixed income securities	966	-	-	966
	27,444	20,244	-	47,688
Derivative				
Forward foreign currency contracts held for trading	-	(52)	-	(52)
Available for sale investments				
Quoted securities	4,973	-	-	4,973
Managed funds				
GCC	-	13,260	-	13,260
Others	-	5,612	-	5,612
Debt instruments	-	-	5,457	5,457
Equity participations	-	11,050	-	11,050
Unquoted securities	-	-	1,518	1,518
	4,973	29,922	6,975	41,870
	32,417	50,114	6,975	89,506

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

Measurement at fair value

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

a. Quoted securities

All the listed equity securities are publicly traded in stock exchanges. Fair values have been determined by reference to their quoted bid prices at the reporting date.

b. Unquoted securities

The consolidated financial statements include holdings in unlisted securities which are measured at fair value. Fair value is estimated using other valuation techniques which include some assumptions that are not supportable by observable market prices or rates.

c. Investment in managed funds

Investment funds managed by other mainly comprise of unquoted units and the fair value of these units has been determined based on net assets values reported by the fund managers as of the reporting date.

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques(s) and inputs used).

Notes to the Consolidated Financial Statements (continued)

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

35.2 Fair value hierarchy (continued)

Financial assets	Fair value as at 31 Dec. 2017 KD'000	Fair value as at 31 Dec. 2016 KD'000	Fair value Hierarchy	Valuation technique(s) & key input (s)	Significant unobservable input (s)	Relationship of unobservable inputs to fair value
Investments at fair value through Profit or loss:						
Quoted securities	**26,666**	26,478	1	Quoted bid prices	N/A	N/A
Managed funds	**22,071**	20,244	2	NAV Basis	N/A	N/A
Fixed income securities	**761**	966	1	Quoted bid prices	N/A	N/A
Derivative						
Forward foreign currency contracts held for trading	**17**	(52)	2	Foreign exchange rate	N/A	N/A
Available for sale investments						
Quoted securities	**4,362**	4,973	1	Quoted bid prices	N/A	N/A
Unquoted securities	**1,305**	1,518	3	Market multiple & adjusted NAV	Discount rate	Lower discount rates, results in higher fair value
Managed funds	**25,129**	18,872	2	NAV Basis	N/A	N/A
Debt instruments	**5,412**	5,457	3	Discounted cash flows	Cash flow estimate and discount rate	Higher estimated cash flows & lower discount rates, results in higher fair value
Equity participation	**-**	11,050	2	NAV Basis	N/A	N/A
Equity participation	**13,634**	-	3	Adjusted NAV Basis	Liquidity discount rate	Lower discount rates, results in higher fair value

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

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:

	Available for sale Investments	
	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000
Opening balance	**6,975**	7,017
Transfer from level 2 to level 3	**13,634**	-
(Redemption)/purchase	**(116)**	84
Losses recognised in other comprehensive loss	**(142)**	(126)
Closing balance	**20,351**	6,975

36. Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, system failure or from external events. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk. The management ensures compliance with policies and procedures and monitors operational risk as part of the overall risk management.

37. Capital management objectives

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.
The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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

The capital structure of the Group consists of the following:

	31 Dec. 2017 KD'000	31 Dec. 2016 KD'000
Bank borrowings and bonds issued	**42,516**	33,146
Less: Cash and cash equivalents	**(8,226)**	(21,237)
Net debt	**34,290**	11,909
Total equity	**113,282**	115,275

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by the total equity as follows:

	31 Dec. 2017 %	31 Dec. 2016 %
Net debt to equity ratio	**30.27**	10.33