المركز
MARKAZ

# Annual Report
# 2020

Kuwait Financial Centre K.P.S.C | Asset Management | Investment Banking
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H.H. Sheikh
Nawaf Al-Ahmad Al-Jaber
Al-Sabah
Amir of the State of Kuwait

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

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# About Markaz

*Established in 1974, Kuwait Financial Centre 'Markaz' is one of the leading asset management and investment banking institutions in the MENA region. Markaz was listed on the Boursa Kuwait in 1997. Since inception, Markaz has attracted and retained a client base of high net worth individuals, governments, quasi-government institutions, and corporations. The Company caters to its client base through the following products and services:*

**Asset Management:**
- Equity Mutual Funds
- Fixed Income Mutual Funds
- Real Estate Mutual Funds
- Private Equity Funds
- Portfolio Management

**Investment Banking:**
- Capital Markets
- Advisory
- Private Equity and Venture Capital

**Real Estate:**
- Middle East and North Africa
- International

**Research:**
- Economic and Policy Research
- Consulting Services

**Vision**

*Your partner in wealth creation*

**Mission**

*Offer best-in-class investment opportunities and tailored solutions*

# Our Offerings

## *1. Asset Management Business*

**Asset Management services include diverse proprietary as well as customized investment solutions across mutual funds and specific portfolio management. With an exceptional track record, clear investment guidelines and a long term approach to investments, client returns and satisfaction are our top objective. The Markaz investment process focuses on stock selection and is backed by quantitative and qualitative analysis undertaken by a professional team of experts. It provides unbiased opinions that are critical to a successful investment strategy. The Wealth Management & Business Development team has established relationships with sovereign wealth funds, pension funds, banks, family offices and high net worth individuals providing them with advice and access to the Markaz financial product range. Markaz Assets Under Management (AUM) as of (31 December 2020) is KD 979 million.**

### *Service Offerings*

#### Mutual Funds - Equity

- **Markaz Fund for Investment & Development (MIDAF)**
- **Markaz Fund for Excellent Yields (Mumtaz)**
- **Forsa Financial Fund**
- **Markaz Arabian Fund***
- **Markaz Islamic Fund**

#### Mutual Funds - Fixed Income

- **Markaz Fixed Income Fund***

#### Mutual Funds - Real Estate

- **Markaz Real Estate Fund**
- **Markaz Gulf Real Estate***

#### Portfolio Management - Client and Proprietary

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

## *2. Real Estate Investments*

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

#### MENA Real Estate

In 1998, Markaz established a dedicated Real Estate division. Markaz MENA Real Estate has a team of 23 professionals and currently manages KD 294 million in assets in Kuwait, UAE, KSA and Levant. Additionally, the division operates though regional offices in Riyadh, Khobar, Dubai and Abu Dhabi.

Markaz is managing part of the National Real Estate Portfolio, owned by Kuwait Investment Authority, with a value up to KD 250 million. In addition, Markaz Real Estate Fund has an AUM of KD 79 million across 17 properties and Markaz Gulf Real Estate Fund is a private placement.

* Private Placement funds.

# Our Offerings (continued)

### 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 123 properties for a total development and acquisition cost of over USD 1.8 billion. This includes approximately 9,000,000 sq. ft. of industrial warehouse space, 3,500,000 sq. ft. of retail, 1,350,000 sq. ft. of office and almost 3,400 apartment units. Markaz currently manages approximately USD 484 million of real estate assets across multiple funds. In addition to its investment in the USA, Markaz has been an active investor in Europe over the past few years. It has invested in over 10 projects for a total value of USD 300 million dollars.

## *3. Investment Banking*

**Markaz has successfully executed investment banking transactions of over USD 5.1 billion (as of 31st December 2020), spanning across equity issuance, debt issuance, mergers and acquisitions, listings, credit rating advisory, restructuring and other advisory transactions. Each client has a unique requirement, for which a consultative approach is adopted to formulate and advise optimal solutions.**

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

## *Flagship Assignments in 2020*

### Advisory

**KALEXCO**
Valuation Advisory
2020

**House of Development for Agricultural Contracting Co.**
Valuation Advisory
2020

**Gulf Bank**
Transaction Advisory - Sell Side Advisor
2020

**Al Ahli Bank of Kuwait**
Transaction Advisory - Sell Side Advisor
2020

### Capital Markets

**National Industries Group K.S.C.P.**
Bond Issue
KWD 30 million
Joint Lead Manager
2020

**National Bank of Kuwait S.A.K.P.**
Bond Issue
KWD 150 million
Joint Lead Manager
2020

**Kuwait Financial Centre "Markaz" K.P.S.C.**
Bond Issue
KWD 35 million
C0-Lead Manager & Subscription Agent
2020

**United Project Company for Aviation Service K.S.C.P.**
Rights Issue
KWD 28.3 million
Lead Manager & Subscription Agent
2020

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

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

## Published Research

**Marmore publishes quality research to meet client needs by offering tailored solutions. Published over 50 reports on its research web portal and executed 29 bespoke engagements with entities across the GCC region, ranging from large government and semi government institutions to corporations. Some of the popular research published during the year:**

- GCC Private Equity and Venture Capital
- Shift to Electric Vehicles – How will it impact GCC Automobiles Sector
- Equity Market Return Expectations for Saudi Arabia, 2020 – 2024
- SME's in Kuwait: Data, Prospects and Challenges
- Saudi Arabia Banking: Caught in the COVID-19 Grip

## Blogs

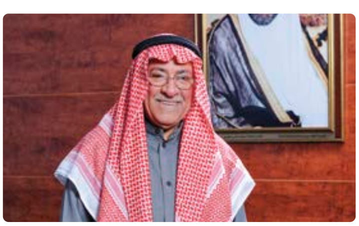
**Marmore Blogs provide a succinct view on the latest developments in the region spanning from economy to capital markets. Below is a list of our recent popular blogs.**

- Data Science and its Economic Potential for the GCC
- Visualizing a post Covid-19 World: What to expect?
- AI and ML: Sectors that already benefitted and sectors yet to benefit
- GCC Governments should tap the idea of perpetual bonds
- How to improve the Secondary Market for Sukuk Bonds
- Implications of COVID-19 on GCC Asset Classes
- Kuwait Sector Indices: Comparison of declines due to COVID-19 and 2014-16 Oil Price Crash
- Saudi Arabia's move towards a cash less economy propelled by COVID-19
- Boursa Kuwait's stock surges on its trading debut – Has privatization been a success?

# Board of Directors

**Mr. Diraar Yusuf Alghanim**
Chairman

Mr. Alghanim has over 40 years of experience since 1981 in the financial services industry, insurance, contracting and general trading in the region and internationally. He is chairman of the Board Steering Committee at Markaz. He is a member of the Board of Directors of Kuwait Chamber of Commerce & Industry (KCCI) since 2001 and is 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.



**Mr. Faisal AbdulAziz Al-Jallal**
Vice Chairman

Mr. Al-Jallal is the Chairman of the Board Audit Committee and member of the Board Nomination & Remuneration Committee. He is the Managing Director of Al-Baseet Trading Co. and Partner in Al-Jallal Real Estate Co. Mr. Al-Jallal holds a University Degree from Alexandria University.

**Mr. Ayman Abdullateef Alshaya**
Board Member

Mr. Alshaya is a member of the Board Steering Committee and the Board Nomination & Remuneration Committee at Markaz. He is board member of the Alshaya group of businesses, a family company founded in Kuwait in 1890. He has been CEO of Trading Division in Alshaya Group since 1989 and is Chairman of Al Ahleia Insurance Company. Mr. Alshaya holds a Bachelor's Degree in Mechanical Engineering from Kuwait University.

**Mr. Fahad Yaqoub Al-Jouan**
Board Member

Mr. Al-Jouan is chairman of the Board Risk Management Committee and member of the Board Steering Committee and the Board Audit Committee. He is the Deputy Director General of the Al-Jouan General Trading and Contracting Company as well as a Board member in the Chamber of Commerce and Industry of Kuwait, National Petroleum Services Co. (NAPESCO) and Vice-Chairman of Al-Dorra Petroleum Services. Mr. Al-Jouan holds a Bachelor's Degree in Business Administration from Eastern Washington University.

Audit Committee  Board Steering Committee  Nominations & Remunerations Committee  Risk Management Committee

**Mr. Adel Mohammed Alghannam**
Board Member

Mr. Alghannam is member of the Board Risk Management Committee and the Board Nomination & Remuneration Committee at Markaz. He is Board Member and Executive Manager for Kapico Group Holding Co. since 2003, and holds managerial positions in several of its subsidiaries like Royale Hayat Hospital, Kuwait Auto Parts Imports Co, The National Spare Parts Co, AG Melco Elevator Co. and many others; he is also Board Member of Al Ahleia Insurance Company since 2005. Mr. Alghannam holds Bachelor's degree in Business Administration, USA.

**Mr. Omran Habib Hayat**
Board Member

Mr. Hayat is member of the Board Risk Management Committee at Markaz. He is the Founder and Managing Partner of Al-Mehan Holding Company WLL, a private equity firm investing in the real estate development value chain such as in Al Mutawir Regional Real Company and Dal SSH International Engineering Consultants. He is Chairman of National Petroleum Services Co. (NAPESCO) since 2006. He also served for 9 years as Managing Director of United Real Estate Company and for 3 years as Deputy Managing Director of National Real Estate Company. He is board member in Kuwait Chamber of Commerce and Industry (KCCI), and in Public Authority for Applied Education and Training (PAAET). He is also member of the Board of Trustees of Loyac and member of the Industrial Advisory Board to the Australian College of Kuwait. He is member of the Real Estate Academic Initiative (REAI) and Harvard University and member of Kuwait Society of Engineers. Mr. Hayat holds a Bachelor of Science in Architectural Engineering from the University of Miami, and a Master of Science in Project Management and Finance from Northeastern University in Boston. He also completed Advanced Management Development Program in Real Estate– Office of Executive Education, Harvard University.

**Mr. Fahad Sulaiman Aldalali**
Board Member

Mr. Fahad Sulaiman Aldalali is member of the Board Audit Committee at Markaz. He is currently a Partner in Cornerstone Consulting. He served in several positions at Halliburton Overseas Limited in Kuwait since 2003. Then, he served as Vice President at Moelis & Company at the Dubai International Financial Center. He also is a board member in Al Mulla International Finance. Mr. Aldalali holds a Bachelor's degree in Electrical Engineering from Michigan State University; and a Master's degree in Finance and Accounting from the University of Pennsylvania.

**Maha Abdul Salam Imad**
Board Secretary

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

Audit Committee · Board Steering Committee · Nominations & Remunerations Committee · Risk Management Committee

# Chairman's Letter

**Dear Shareholders,**

As we continue to navigate our way through the COVID-19 pandemic, one of the most disruptive challenges the world has faced in recent times, the impact on us as an organization and the financial services industry more broadly will be felt for years to come. Successfully steering Markaz through this turbulent year is a testament to the management team and support of all our stakeholders.

## The Pandemic Impact

The financial markets' momentum at start of 2020 dissipated with the onset of the health crisis, which rapidly morphed into a worldwide economic crisis in an unexpectedly short time frame. Across the world, Governments played an imperative role in containing further outbreaks by their swift responses and by enforcing strict measures, such as unprecedented nationwide curfews. Governments were also faced with additional challenges to prevent economic and financial downturns, and in response announced unprecedented fiscal and monetary policies to ensure the availability of funds to maintain their economies. In spite of that, 250 million jobs were lost worldwide by end of 2020, according to World Bank estimate.

Markaz's top priority during this period was to comply with the governmental health and safety regulations and to ensure the well-being of all our employees by quickly adopting a 'work from home' policy early in the year. We are proud of how our teams swiftly adapted to this new work style and have demonstrated impressive ongoing dedication and commitment in servicing our corporate, institutional and private clients. Our leadership team remains proactive with clients and has been working closely with individual departments, primarily through video conferencing, in providing them with undisrupted strategic guidance and operational support.

## Product Development

Markaz has always been focused on evolving by introducing innovative investment products and by adopting advanced technology tools to manage clients' investments and ensure that their objectives are being achieved. Markaz's resilient and agile business model, more recently fully adopting a broad range of digital transformation initiatives, has allowed us to maintain business stability and to consistently deliver uninterrupted services to our clients, not just throughout this last year, but from the start of our journey.

Markaz remains vigilant for opportunities emerging from Covid-19 pandemic and stands ready to take advantage of these opportunities and to translate the same into beneficial investments for its clients.

## Financials

Despite these ongoing challenging market conditions, Markaz delivered a relatively resilient financial performance underpinned by a strong rebound in the second half of the year, in spite of the net loss attributable to shareholders for the year that was contained to KD (1.72) million or an eps of (4) fils per share.

In December 2020, Markaz successfully closed its KD 35 million 5-year bond issue through a private placement. We continue to maintain strict financial discipline across the firm, operate with a robust capital structure and ensure that the liquidity remains aligned to the near-term business needs and outlook. With this approach in mind, the Board of Directors decided that it was prudent not to propose any dividend for the year ended 31 December 2020 and continues to monitor the impact of the pandemic on the business in the medium term.

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

## Business Strategy

Sustainability is an integral part of Markaz's strategy. Our holistic approach of transparently engaging with all stakeholders provides real time direction and feedback. As an organization, we have placed great emphasis on digitization in order to minimize and manage waste and adopt environmentally friendly processes and practices. We also continue to promote a culture of

*"Successfully steering Markaz through this turbulent year is a testament to the management team and support of all our stakeholders"*

diversity and inclusion in the workplace and maintaining strong and effective governance practices. In 2020, Markaz released its second sustainability report, covering the period of 2018/2019. It details the many initiatives demonstrating our commitment to embracing a comprehensive Environment, Social and Governance (ESG) framework and alignment to select UN defined Sustainable Development Goals (SDG's). As a responsible corporate citizen, we are determined to continue operating in an environmentally sustainable manner by preserving resources, mitigating negative impacts and improving efficiency to create value for all our stakeholders. Overall, our strategic and daily way of operating has laid a strong foundation to Markaz's sustainable future.

During the year and despite the pandemic challenges, Markaz stayed closely connected and delivered high quality advice to its clients. It gives us immense pleasure to be recognized for these achievements. In 2020, Markaz was named 'The Best Investment Bank in Kuwait' by Global Finance and EMEA Finance. In addition, Markaz won 'The Best Asset Manager in Kuwait' and the 'Corporate Social Responsibility in the Middle East' awards from EMEA Finance.

## Outlook

We are looking forward to a positive start in 2021 with the ongoing Covid-19 vaccination drive around the world leading to a faster recovery in business and economic activity. In addition, the recovery in oil prices, coupled with fiscal and monetary policies across most countries, has led to improved business sentiments and investor confidence. We remain cautiously optimistic as there is an ongoing need to closely monitor the course and impact of new Covid-19 strains in the near-term.

Clearly, 2020 was a very challenging year with the crisis testing our business; however, I am proud that Markaz has swiftly adapted with the changing environment and delivered a resilient performance in the most turbulent of times. Our diversified business model, broad geographic investment presence, financial discipline and prudent capital structure have positioned Markaz well to pursue its growth plans in the coming years. The Company will continue to invest in its core investment competencies along with technology and digitalization to better service its clients and deliver sustainable returns to all investors.

I would like to take this opportunity to thank all regulatory authorities, including the Central Bank of Kuwait, the Capital Markets Authority and the Ministry of Commerce and Industry who have continued to provide us with professional guidance and support during these challenging times. In addition, our dedicated employees, clients, business partners and stakeholders have provided Markaz with unwavering support. I am also proud of our Board of Directors and Senior Management for their exemplary professionalism, strategic guidance and deep insights to not only navigate the firm successfully through the crisis, but to set us again on a profitable and sustainable course in the coming years. We cannot but thank our former CEO, Mr. Manaf A. Alhajeri, who resigned on 29th of October 2020, for his relentless efforts during his journey at Markaz. We are also confident that the Executive Management under the leadership of Mr. Ali H. Khalil, CEO, and all Markaz family will persevere to continue implementing Markaz's vision to be your partner in wealth creation and preservation.

**Diraar Yusuf Alghanim**
Chairman
10 February 2021

# Executive Management

**Manaf A. Alhajeri**
Former Chief Executive Officer*

**Ali Hassan Khalil**
Chief Executive Officer**

**Raja Farrukh Abrar**
Senior Vice President and
Acting Chief Financial Officer

**Bassam N. Al-Othman**
Managing Director
MENA Real Estate

**Amani I. Al-Omani**
Managing Director
MENA Equities

**Abdullatif W. Al-Nusif**
Managing Director
Wealth Management &
Business Development

**Peter Kelly**
Executive Vice President
Human Resources

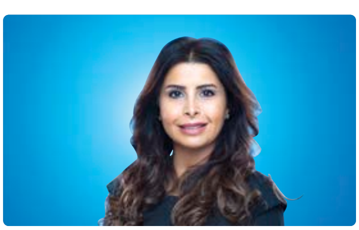
**M. R. Raghu**
Executive Vice President
Published Research

**Maha A. Imad**
Executive Vice President
Corporate Affairs, Custody
Services

*Mr. Manaf A. Alhajeri has resigned from his position as the Chief Executive Officer of Markaz, effective 29th October 2020.
** Mr. Ali H. Khalil has been appointed as the Chief Executive Officer of Markaz, effective 30th October 2020.

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

**Hussein A. Zeineddin**
Executive Vice President
Management Information Systems, Operations



**Ms. Deena Y. Al-Refai**
Senior Vice President
Investor Relations

## *Awards and Recognitions in 2020*

Best Investment Bank in Kuwait

Best Asset Manager in Kuwait
Best Local Investment Bank in Kuwait
Best Equity House in Kuwait

# CEO's Message

**Dear Shareholders,**

As I embark on my new role as the Chief Executive Officer of Markaz, I am extremely proud of the organization that I joined 24 years ago, where customer centricity, innovation, and commitment to our stakeholders and community remain at the forefront, especially during these recent times.

Over the years, Markaz has built itself successfully, by benefiting from emerging trends and opportunities, and skillfully navigating the challenging times to emerge with an increasingly stronger, robust, and agile business model. Your company continues to maintain its position as one of the leading wealth management and investment banking institutions in the region, because of the dedication of its experienced team of professionals and the trust and the loyalty of its clients. Our track record of consistently delivering returns to our investors, both in GCC and international markets, speaks for itself.

## Strategic Initiatives

During 2020, Markaz along with all our stakeholders faced an unprecedented health crisis, which impacted all aspects of our personal and professional lives. We immediately amended our Business Continuity Plan (BCP) to allow us to deal with the circumstances; our highest priorities were to protect our staff, maintain liquidity, preserve the capital of our investors, and minimize the risks arising from the volatile market conditions.

We were quick to fully comply with all government regulations and initiatives, and adopt and implement the work from home culture, thereby ensuring the safety of all employees and maintaining business stability. Our employees, spread across countries, have successfully demonstrated great dedication and resolve in servicing clients, managing clients' and Markaz's assets and portfolios whilst working from home.

We swiftly moved to remote systems, continuously monitored market developments and adjusted client portfolios to align with their revised investment objectives. To keep our clients fully informed, we launched a daily investment dashboard to monitor investments and assets across the world and the GCC, and report movements in a timely manner. We further enhanced our internal control systems and used secured platforms to ensure confidentiality and data integrity.

Digital transformation is an ongoing initiative since our inception. We recently implemented new solutions to enhance the customer experience from the start at the on-boarding stage and through the entire investment journey. I am pleased to report that Markaz launched the personalized investment app "iMarkaz" in February 2020. The interactive digital platform allows investors to build their investment portfolios, and connects them to Markaz relationship managers who will advise them further on how best to achieve their financial objectives. For our real estate business, Markaz launched an Online Resident Services portal, bringing a new level of convenience and comfort to our tenants. This platform fully automates the rental process efficiently and securely, including rent payment, maintenance requests, and lease management and renewals.

At the core of Markaz's strategy is the capability to adapt to ever-changing market conditions, which is also our key organizational strength. We continue to distinguish ourselves by offering tailor-made and innovative solutions to meet clients' requirements, enabling us to maintain business stability in difficult times such as these.

## 2020 Performance Overview

### MENA Equities

The S&P GCC Index dipped -28.41%, reaching its lowest point in 2020 as of 16 March 2020 due to uncertainty created by Covid-19, and recovered substantially by year end while remaining volatile during the full year. Markaz's equity funds recorded negative returns in line with their benchmark indices. Our asset management team worked closely with clients at regular intervals to assess the change in their risk profile, and manage their portfolios accordingly. Our funds were actively managed, altering asset allocations to mitigate certain market risks, and benefiting from resulting trends. As a result, most of our clients reduced their year-to-date losses as the equity markets recovered from the March lows. Our Mutual Funds fared well in Q4, ending the quarter in positive territory.

### Fixed Income

During 2020, bonds and fixed income securities became a preferred asset class and performed exceptionally well in the declining interest rate environment. Our Fixed Income Fund ended the year with positive returns, as our balanced asset allocation proved beneficial to face market volatility.

The Markaz fixed income team offers our clients access to GCC bonds and Sukuk through managing their tailor-made fixed income portfolios. The team remained active in publishing fixed income related research including a report on the impact of the Covid-19 outbreak on the fixed income markets.

*"Markaz has built itself successfully, by benefiting from emerging trends and opportunities, and skilfully navigating the challenging times to emerge with an increasingly stronger, robust, and agile business model"*

### MENA Real Estate

The real estate market was impacted in multiple ways, as demand for all types of properties declined and tenants elected not to pay rent or defer rent payments in response to the impact on businesses and overall economic activity. In these market conditions, our Kuwait properties valuations declined in the first half; however, a strong recovery was seen in the latter part of the year. The Markaz real estate team closely monitored the impact of the coronavirus pandemic on the properties and tenants, and offered rental discounts to ensure occupancy levels remain close to pre-Covid-19 levels and timely rental collections. Collections are expected to improve further with the continuous opening up of the economy and a return to normalized conditions.

Our flagship fund, Markaz Real Estate Fund (MREF) continued to deliver positive returns to investors. Markaz continued to manage up to KD 250 million of the National Real Estate portfolio of the Kuwait Investment Authority. Furthermore, Markaz sustained healthy occupancy and collection rates across its portfolios in the GCC. The company has commenced the sale of units in its Abu Dhabi property (Parkside) during the course of 2020. The sale process will continue during 2021. In addition, Markaz will soon start the sale of units in its property (Vezul Tower) located in Business Bay, Dubai.

### International Real Estate

During the year, Markaz successfully exited from six real estate properties, out of which five were industrial and one was multifamily apartments, delivering better than expected return to investors. The year is a testament to Markaz's capability to achieve attractive returns despite challenging market conditions. We remain committed to leveraging the vast experience of our real estate team to expand our international presence, especially in Europe. Therefore, during the year, Markaz invested in seven industrial development projects – five in Europe and two in the US. The current market dynamics are expected to present more opportunities and we will continue to evaluate and selectively invest in industrial development projects that meet our investment and return criteria.

### Investment Banking

As to be expected, M&A activity declined significantly during 2020 as Covid-19 severely impacted companies across most industry sectors, decision-making confidence and the ability to conduct due diligence. Corporates were focused on preserving cash and their capital structures to weather the pandemic and its near-term implications. The GCC IPO market remained subdued during 2020, whereas bond and sukuk markets remained the preferred choice for raising funds in this low-interest rate environment.

Our investment banking team was able to accelerate its business development efforts and gather strong market intelligence on companies across different sectors to build a strong pipeline for the near term. Our capital markets team successfully executed bond issuances for the National Industries Group, the National Bank of Kuwait and Markaz, in addition to a capital increase transaction for the United Projects for Aviation Services. Our advisory team continued to successfully close mandates and deliver high-quality advice to its clients during these challenging times. In recognition of our services, Markaz was named 'The Best Investment Bank in Kuwait' by Global Finance Magazine and EMEA Finance.

Looking forward, M&A activity is expected to pick up, however, it is unlikely to reach pre-Covid-19 levels until 2022. Financial restructuring and transaction advisory mandates may arise as companies look for capital infusion and divest non-strategic businesses. There will be an opportunity for companies with proactive management teams and robust balance sheets to capitalize on these opportunities.

### Our People and CSR

The Covid-19 pandemic posed unprecedented challenges that impacted the lives of all people and societies around the world and altered the way we live. Social distancing, work from home and increased need for sanitization seemed to have become the new normal. Many aspects of the health crisis were much more severe with people tragically losing lives, curfews being implemented and widespread job redundancies.

Despite the pandemic, Markaz valued and stood by all its employees and has not asked from them any concessions. Our Human Resources and Information Technology teams played a critical role in keeping all employees safe, connected and motivated as we shifted to remote working during the lockdown.

To contribute towards and support our society during these challenging times, Markaz distributed around 680 food baskets, sufficient for over 1,500 people, with the aim of helping families and individuals affected by the lockdowns.

# CEO's Message (continued)

Markaz Graduates Development Program (MGDP), which was started in 2017, develops the skills of 10 motivated young Kuwaiti graduates annually, and provides them with a one-year training program on all aspects of asset management and investment banking functions. MGDP continued in 2020 despite the lockdown and offered intensive online training to the program participants. With the activation of strategic partnerships and the adoption of technology, the company has seen a three-fold improvement in the efficiency and the effectiveness of the training program for the participants.

These times remind us of our shared responsibilities beyond the simple boundaries of Markaz as an institution towards our wider society. Markaz has been and always will be a responsible corporate citizen staying fully committed to its stakeholders and communities.

## Gearing up for the Future

Global confidence is gradually returning with an improvement in business sentiment underpinned by the re-opening of economies and the ongoing vaccination drive across the world; and along with that, new opportunities will arise, and business risk will hopefully subside as we return to normalcy.

In January 2021, Kuwait equity markets also started on a positive note supported by the recovery in oil prices, and a draft budget, announced by Kuwait's Ministry of Finance, that includes a favorable capital expenditure. The market is well poised to grow, however, we remain vigilant considering the wave of new Covid-19 strains and closely monitoring its spread and impact.

As a management team, our focus will remain on understanding our clients' dynamic needs; accordingly, improving our product and service offering, and identifying new suitable investment opportunities arising from the current market conditions. Our research-based approach is intended to anticipate trends and better position our clients' investments to meet their objectives.

Two major trends are shaping our investment decisions. The first is the transformation of so many sectors of our economies, driven by a change in consumer behavior, impacting all asset classes from equity and debt of companies to real estate. Investment decisions have never been as complex; we expect high diversion in performance among and within the same asset classes that require highly experienced and skilled investment professionals like us who can understand the driving factors, and properly decide on asset allocations and select investments.

The second trend is the demographics of the GCC region combined with tighter fiscal policies. Demographics are great drivers for economic growth, and we are witnessing a substantial change in consumer behavior and investor's behavior as the young generation becomes the main earner. Companies that can successfully cater to their needs are likely to prevail; we plan to be among them. In addition, we believe that the government will increasingly rely on the private sector to fill the gap that will be left by a tighter fiscal policy. Companies in Kuwait and the GCC, in general, will require access to the equity and debt capital markets to fill such gap; and we intend to support them through our investment banking capabilities.

We will continue to invest and adopt the latest technology to improve our clients' experience and meet their needs, to launch innovative and competitive investment products and services, and to enhance our monitoring and control systems.

The commitment to growth and disciplined capital allocation is a strategic priority so we can deliver returns to our shareholders. As we embark on this journey of new opportunities, riding on our established strengths of adaptability, we look to the future with confidence.

I am grateful for the collaborative spirit at Markaz, made possible by our talented and exceptionally committed professionals. Their resolve to prioritize clients' needs during the year is foundational to our success. On behalf of them, I express my sincere gratitude to our Board of Directors for their continued guidance, especially during the unprecedented times of Covid-19. In addition, we express our gratitude to our shareholders for their unwavering support and vote of confidence.

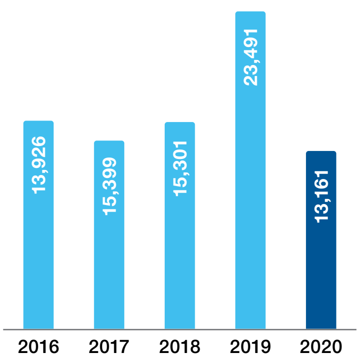
Our leadership team remains committed to delivering best-in-class asset management and advisory services to clients, developing innovative products and expanding its market outreach all while operating within a holistic framework of sustainability. I am confident that all of the strategic initiatives already in place at the start of 2021 will drive high performance results in the coming years, create value for all stakeholders and make a difference to our community.

**Ali. H. Khalil**
Chief Executive Officer

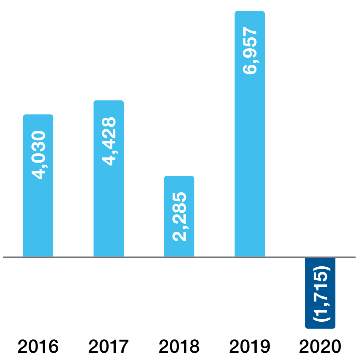
# A Year of Achievements

## *Financial Highlights*

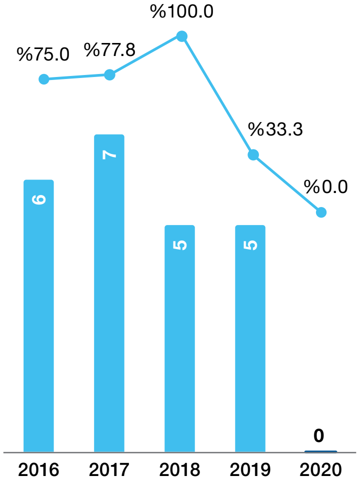
**Revenue (KD thousands)**



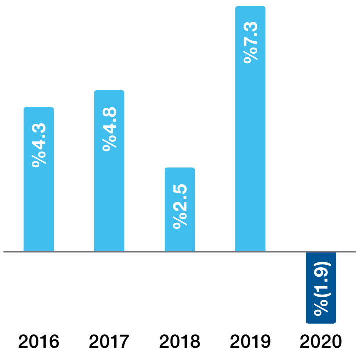

**Net Profit (KD thousand) & Margin (%)**



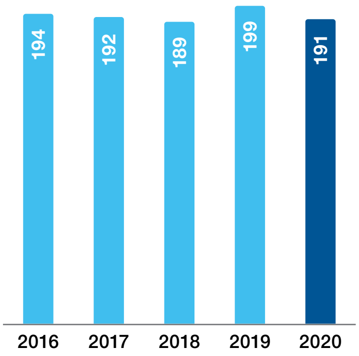

**Dividend (Fils) & Pay-out (%)**



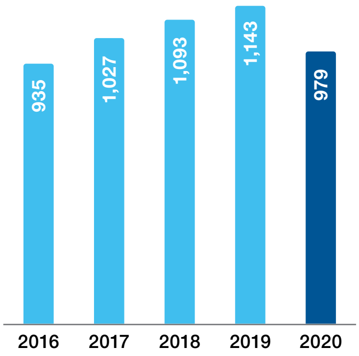

**Return on Equity (%)**




**Shareholders Equity (KD thousand)**




**Assets Under Management (KD billion)**



# Business Review

## Asset Management

### MENA Equity Funds

The S&P GCC index delivered a 6.1% gain in the fourth quarter, recovering from the 28% loss in March 2020, bringing the index's full year performance to a 2.1% gain at the end of December 2020. The recovery in the second half of the year was driven by the announcement of the vaccine roll out, the increase in oil prices and a gradual return to normal economic activity.

During the year, Markaz quickly adopted effective technological platforms to stay connected with clients and manage their investments. The asset management team remained prudent and actively aligned its portfolio to mitigate losses amidst the highly volatile equity market conditions. Markaz's various funds, Forsa, Markaz Fund for Excellent Yields (MUMTAZ), Markaz Islamic Fund and Markaz Investment and Development Fund (MIDAF), consecutively recorded positive returns in Q3 and Q4 2020. In the fourth quarter, Markaz Islamic Fund, Forsa Fund, MIDAF Fund and Mumtaz Fund delivered gain of 2.71%, 2.12%, 1.45% and 1.13% respectively.

At the start of 2021, there were encouraging signs of stabilization with the vaccination roll out, but volatility is still expected to continue until economic activity returns to its pre-Covid levels. Markaz's experienced asset management team will continue to work closely with their clients to actively manage their allocation of funds, monitor risk profiles and deliver returns that are in line with the benchmark.

### Fixed Income Fund

During 2020, bond and sukuk issuances in the GCC region set a record for primary debt issuances, with a total of USD 133 billion raised representing a growth of 16% year-on-year. GCC governments and corporates faced budget and liquidity challenges due to the abrupt halt in economic activity during the lows of the pandemic, coupled with lower oil prices. With these market conditions, fixed income markets became the preferred source of funding, supported by the low interest environment.

The Markaz Fixed Income fund (MFIF), a privately placed fund, delivered positive returns supported by a balanced allocation across MENA geographies and sectors. The Markaz fixed income team remained active in publishing research on the impact of the Covid-19 outbreak on the fixed income market. Markaz will continue to offer clients access to the GCC fixed income market through discretionary and non-discretionary portfolios.

### Portfolio Management

Markaz has a longstanding track record of advising clients and customizing their investment portfolios with a clear objective to meet their return expectations and be contained within risk tolerances. A disciplined and systematic investment process is initially established and then implemented to deliver attractive returns.

Markaz provides portfolio management services, including discretionary, non-discretionary and advisory services to high net worth individuals (HNIs) across the GCC region. The team of highly experienced professionals offer customizable investment solutions to investors, allowing them to best meet their investment objectives.

### Real Estate Funds

The Markaz Real Estate Fund (MREF) is an open-ended fund launched in 2003 with the purpose of investing in income-generating assets in Kuwait. As of 31st December 2020, the fund had AUM of KD 66 million across 17 properties. Despite the challenging market conditions, MREF continues to distribute a monthly cash dividend and generated total returns of -2.7 % in 2020.

In addition to the MREF, Markaz manages Markaz Gulf Real Estate Fund (MGREF), which is an open-ended privately placed fund launched in 2014 that invests in income-generating assets across the GCC. The fund has invested in real estate assets across Kuwait, KSA and UAE. The portfolio of assets includes a mix of commercial, residential and industrial income-generating assets.

## Real Estate

### MENA Real Estate

During the year, the unfolding of the pandemic and the measures adopted to contain its further outbreak impacted the real estate market in multiple ways. Demand for all classes of properties declined in the GCC region, as some tenants elected to close their businesses and move to working from home. This was symptomatic of a general trend of moving from relatively high rental property to lower priced properties and investors postponed their plans to invest in real estate to preserve cash during these times. Collections were also impacted as some tenants elected not to pay rent or defer rent payments in response to the impact on businesses and overall economic activity in the first half of the year. However, collections improved considerably in the second half of the year, with the removal of restrictions and increased economic activity. Real estate demand and valuations have started to improve but the recovery is expected to be cautious and slow paced.

In line with these market conditions, collection levels in the Kuwait property portfolio also declined significantly, to 45% in May, but a strong recovery was seen in the later part of the year with collections around 80%. Collections are expected to improve further with the continuous unlocking of the economy and a return to normalized conditions. The Markaz real estate team closely monitored the impact of Covid-19 on their property portfolio and its impact on tenants. It offered rental discounts in the range of 5-15% on a case-to-case basis to ensure occupancy levels and rental collections remained close to pre-Covid levels.

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

Occupancy is improving across all KSA assets, with the market showing signs of stabilization. Markaz continued managing our assets and carrying out in-house property management for our properties in Riyadh, Khobar and Dammam.

Abu Dhabi properties are enjoying high occupancy and collection levels, and Dubai property has seen a noticeable increase in occupancy and collection levels. Markaz continued selling units in one of our Abu Dhabi development, and initiating the sale of apartments in Dubai. Markaz team also continued managing our assets and carrying out in-house property management for our properties in |Abu Dhabi and Dubai.

### International Real Estate

The Covid-19 pandemic adversely impacted all segments of the real estate industry, except the industrial sector which benefitted from the lockdown restrictions. Demand for warehousing and logistics spaces increased due to the high levels of e-commerce business activity experienced across the world.

During the year, Markaz successfully exited six real estate properties, which demonstrated the capability of the international real estate team to deliver attractive returns despite the challenging market conditions. The five industrial properties sold during the year generated an average IRR of 15% and the sale of multifamily apartments generated an IRR of 7.5%. To further strengthen its international presence, Markaz invested in seven industrial projects with five in Europe and two in the US.

The Markaz international real estate team continues to assess development opportunities in the US and Europe, with a similar strategy of build, lease and sell. The current industry dynamics may present more investment opportunities and our team remains committed to conducting comprehensive market and financial due diligence to ensure optimum returns are being generated for our clients. In 2021, we expect to continue our opportunistic approach in perusing ventures with developers and sponsors in key markets. The key focus will be to invest in select industrial development, residential and alternatives projects.

## Investment Banking

### Advisory

M&A activity significantly declined in 2020 due the impact of Covid-19 on corporates across most industry sectors and geographic markets. Management teams were more focused on maintaining business stability and preserving capital to navigate through this crisis.

Our investment banking team continues to deliver high quality advice to its clients and accelerate business development efforts to gather market intelligence and build a strong pipeline for the coming quarters. As a result, we signed several mandates including M&A, valuations and other transaction advisory assignments. During the year, the team successfully completed a sale of a clearing company and contributed towards the successful pre-qualification for a PPP project.

Going forward, M&A activity is expected to pick up as companies may look to restructure and divest from non-strategic businesses. Our experienced investment banking team is well positioned to successfully advise and execute such transactions.

### Capital Markets

IPO activities in the GCC region remained subdued due to the highly volatile equity markets in 2020. Furthermore, the significant decline in oil prices couple with low interest rate environment have pushed Corporates to either postpone their listing plans or raise funds through debt market.

During the year, Markaz's capital markets team successfully executed bond issuances of KD 30 million for the National Industries Group in Q1 2020, KD 150 million for the National Bank of Kuwait and KD 35 million for Markaz in Q4 2020. Furthermore, the team also raised KWD 28.34 million for the capital increase of United Projects Company for Aviation Services 'UPAC'. Looking ahead, Markaz remains committed to support clients and successfully execute mandates to meet funding requirements through both equity and fixed income markets.

### Private Equity and Venture Capital

Markaz continues to actively manage private equity investments and evaluate new opportunities. Over the years, the firm has invested in over 54 funds across different investment strategies including buyouts, venture capital, fund of funds and mezzanine with a geographic focus on the US. The total commitment to private equity reached US$ 150 million. At the end of last year, Markaz also initiated a program with a strategy to allocate funds to direct investments within the GCC region. The department's asset under management amounted to US$ 11 million as of 31 December 2020.

# Business Review (continued)

**Wealth Management & Business Development**

Wealth Management & Business Development (WMBD) builds and maintains long-term relationships with all Markaz clients and further strengthens Markaz's market positioning. WMBD continues to assist in customizing portfolios to adopt different investment strategies that match clients' investment policies and objectives.

During the pandemic, WMBD continued to work actively to enhance Markaz's collaboration with reputable local and regional institutions, as well as reaching out to new clients through its dedicated team of relationship managers. It also concentrated on initiating new collaborations to further strengthen its distribution channels and meet the changing requirements of clients.

Furthermore, WMBD remains committed to providing innovative products and solutions locally, regionally and internationally. As part of a new initiative, WMBD is now providing clients with investment opportunities in selected international markets through its International Investments team.

## International Investments

Markaz's International Investments Department (IID) invests capital on behalf of the firm and clients across international markets and multi asset classes. The IID team actively manages fund allocation to match risk profiles and tracks performance against benchmark indices with the aim to deliver attractive returns.

As worldwide economic activity in 2020 was impacted with the onset of the pandemic, international equity markets remained volatile. Despite these challenging market conditions, the IID team onboarded two new international portfolio managers to manage investments and assist clients in achieving their financial goals.

In the year ahead, the department will continue to evaluate potential investment opportunities to meet evolving client requirements. The IID team remains committed to conducting in depth due diligence and analysis to ensure well informed investment decisions.

## Published Research

Markaz's Published Research Department has always been an integral part of Markaz and continues to further strengthen firm's market position with its insightful research and reports. The research reports are disseminated through the research subsidiary, Marmore MENA Intelligence. Markaz's research capabilities are transformed into effective investment strategies and ideas which position Marmore as a thought leader in the region. During the year, Marmore prepared thoughtful insights related to the pandemic and also strengthened its client base by continuing to offer reliable and objective analysis.

Marmore delivers quality research to meet client needs by offering tailored solutions and has published over 50 reports on its research web portal. In addition to this, it has executed several bespoke engagements with entities across the GCC region, ranging from government and semi government institutions to corporations. Last year, Marmore published 52 articles on issues that pertain directly to regional businesses and economies. These articles, concerning various research studies, were regularly sent out using social media channels and other digital marketing tools. Marmore is well placed to maintain its market position as a leader in the space of published research in the GCC.

## Media & Communications

The role of the Media and Communications Department (MCD) became more critical in 2020 in effectively communicating the company's vision and strategy internally and externally to all stakeholders amidst the uncertainties surrounding the pandemic. MCD continued to endorse the Markaz brand at local and regional levels in line with a comprehensive communications plan. This covered both conventional and digital media with a particular focus on social media, especially during the lockdown period.

The MCD, in collaboration with the Wealth Management & Business Development, Advisory and Research Departments, organized a series of webinars for Markaz's broader stakeholders. The events included seminars and webinars in collaboration with associations in the financial sector to exchange views with stakeholders on developments in local, regional and global markets. These initiatives included "Covid-19 Impact on Kuwait Economy" in collaboration with the Kuwait Foundation for the Advancement of Sciences (KFAS) and "Education Sector in Kuwait post-Covid-19 and Investment Opportunities". MCD will continue to collaborate with all Markaz's departments in order to better serve our stakeholders.

The MCD team continued to publish the Markaz quarterly newsletter "engage" in collaboration with representatives from different departments within the firm, even during the lockdown. The magazine, which has informative articles written by Markaz employees sharing their knowledge and expertise, has achieved great success both internally and externally, representing Markaz professionals' expertise and milestones.

The department continued to implement the firm's 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 collaborated with various civil organizations in many diverse fields including health, education, culture, youth welfare and economic sustainability.

In 2021, MCD is planning to refresh Markaz's website by adopting best international practices and enhancing the user experience with an interactive interface in both Arabic and English. The new website will have state of the art web design technologies. In addition, MCD will continue to strengthen Markaz's internal and external communication, with an emphasis on digital media and translate the brand value into business opportunities.

### Government Business Relations

Markaz established the Government Business Relations team in 2019 to act as a central point of contact with the government. The team aims to build on existing and create new relationships with Kuwait government bodies, systematically focus on government tenders, bid on suitable projects and build relationships with private sector entities bidding on government projects. Internally the team works closely with Investment Banking, Wealth Management and Markaz's research arm (Marmore) to optimize and consolidate Markaz's collective efforts in the public-private sector.

During 2020, several government tenders were postponed or cancelled due to the pandemic along with an increasing government deficit. However, Markaz and a consortium member applied for one of the first private-public partnership initiatives in the education sector. A strong pick up in infrastructure spend in 2021 is expected, as the government enters into the third phase of Kuwait Vision 2035, which focuses on private sector engagement.

In the early weeks of the pandemic, Markaz was invited to present its views on an economic stimulus package at the "Economic ministerial committee" and was also invited to advise the Kuwait Chamber of Commerce with regards to the effects of the pandemic on the global and local economy.

## Support Functions

### Treasury

During the year, the Markaz Treasury Department maintained a suitable level of liquidity along with a well-capitalized balance sheet which has enabled the firm to timely honor its financial obligations in Kuwait, GCC and internationally. The department is responsible for the maintenance of liquidity and continuity of funding as well as timely settlement of debts. It seeks to minimize the effects of various financial risks by using financial instruments, diversification of investments and credit limit exposures. The Treasury Department provides key support to all other departments and subsidiaries by providing reliable banking services including the arrangement of credit facilities, fund transfers, money market access and foreign exchange transactions. The department retains 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 operations efficiently. Going forward, the department will continue to establish new and foster existing relationships with banks locally and internationally to continue to service Markaz fund requirements. In addition, it will continue to utilize the latest technologies to enhance its overall operational efficiency.

### Post-Acquisition

The Post-Acquisition Department (PAD) was established in 2019 with a mandate covering the entire direct investment portfolio of Markaz. As of Q4 2020, the portfolio consisted of around KWD 400 million worth of real estate assets across the MENA region, US and Europe. The department leverages the latest technologies and digital platforms in efforts to enhance investment value by providing in depth portfolio monitoring, live reporting and preemptive and mitigation measures.

The pandemic presented both a challenge and an opportunity to successfully test our systems, operating models and financial resilience. During the year, we enhanced our efforts towards digitization to ensure business operations were not interrupted across our real estate portfolio. The department successfully launched and implemented a tenant portal which is live across Kuwait, UAE and KSA. In addition, there was a move towards integrating our real estate information systems with select partners in the US and Europe which now allows for live data and improves key aspects of the decision making process.

In 2021 the department will continue to further develop its capabilities and systems by benchmarking itself against industry and global best practices. This will allow Markaz to continue make well informed decisions and grow its AUM in a profitable, structured and efficient manner.

### Custody Services

The Custody Services Department offers clients a wide range of services, including custody of financial securities and real estate assets, acting as a security agent over pledged assets in favor of lenders and acting as an escrow agent within sale and purchase transactions.

During the year, Markaz assisted banks in two debt restructuring transactions with their clients, through debt to asset swaps using special purpose vehicles where Markaz was the security agent. Markaz also assisted clients in acquiring listed stock through auctions at Boursa Kuwait, where Markaz was also the escrow agent. The department ensured a seamless execution of the auction and the exchange of escrow funds and assets among the transaction parties.

# Business Review (continued)

## Compliance

Markaz has a comprehensive and robust compliance framework in place to ensure that its activities are compliant with all applicable regulations and internal policies. The Compliance Department is responsible to ensure overall regulatory compliance including implementation of adequate controls and governance frameworks through established policies and procedures. The department conducts periodic testing and monitoring activities to ensure firm wide processes and controls are effective. It also ensures overall compliance with AML regulations by setting appropriate policy and procedures and is responsible for responding to any client complaints. During 2020, Markaz implemented a companywide Compliance Monitoring System as part of the vision to strengthen all compliance systems through increased automation whilst continuing to ensure the ongoing effectiveness of existing internal controls and processes.

## Risk Management

The Risk Management department independently reports to the Board Risk Management Committee and the department is primarily responsible for managing company-wide risks. Markaz has a comprehensive risk management framework in place to ensure that Markaz's risks are governed with appropriate risk management systems and controls. Markaz adopts an integrated approach towards risk management in which all the business units, risk management department and the internal audit unit are considered as key pillars for the effectiveness of overall risk management framework.

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

## Internal Audit

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

## Information Technology

The Information Technology (IT) Department is committed to the creative and innovative use of technology to achieve Markaz's business objectives. Our technology road map for 2020 focused on ensuring end-to-end, client-centric processes with the reduction of manual tasks and automating client reporting to the greatest possible extent. During the year, the coronavirus outbreak accelerated the overall dependence on technology and Markaz remained at the forefront of the adoption of digital technology in all aspects of operations to improve efficiency and enhance the customer experience. Towards that end, Markaz announced in March 2020 the launch of its first personalized interactive investment app, iMarkaz, which offers a new level of user experience to both existing and prospective clients. iMarkaz is a digital platform leveraging on the chatbot technology to provide investment advice tailor-made to the user investment needs and goals.

The Information Technology Department has ensured that the business remained uninterrupted and provided necessary support to maintain business continuity during the year. On the other hand, the IT department developed and successfully tested several disaster recovery (DR) plans to ensure data and service availability. Moreover, the IT Department has been successful in implementing new security measures that is in line with the industry best practices. The IT Department has also deployed market leading backup solutions to protect business data, withstand extreme circumstances including a countywide disaster. Coordinating with the Risk Department, the IT Department has engaged during the year independent external consultants to validate its security and assess controls measures.

## Transaction Processing & Reporting

The Transaction Processing & Reporting (TPR) department supports Markaz's asset management business and plays a vital role across core functions including servicing securities, processing cash and securities transactions, maintaining internal controls, record keeping, custody, reconciliation and reporting. TPR's processes and systems provide timely and detailed account information to management, customers and regulatory agencies. As part of effective risk management, TPR has implemented comprehensive operational controls to ensure that Markaz provides effective and secure support for the administration of client accounts. In the year ahead, TPR will continue improving on its procedures and internal controls to ensure the efficient flow of work and responsibility allocation of the personnel involved in processing transactions, reconciliation and reporting.

## Corporate Affairs

The Corporate Affairs Department comprises of an in-house Legal team and a corporate services team. The Legal Team advises on corporate matters, in addition to providing advice to the asset management and investment banking teams on the various types of transactions. The Team monitors litigations with Legal Counsel. The corporate services team handles the establishment, administrative and corporate affairs of all investment funds and companies established by Markaz and its affiliates for use in asset management and investment banking transactions.

During 2020, in addition to lending support to the business units in the day-to-day requirements, the department complied with the new “Private Funds Law” implemented by the Cayman Islands Monetary Authority affecting 25 Markaz-managed entities; in addition to the Economic Substance Regulations (ESR) in Cayman, Bahrain and the UAE. Moreover, to improve efficiency, the department completed the automation of its core processes using the SharePoint platform, affecting the corporate services and the Legal functions. Process efficiency and system automation enhancements are an ongoing endeavor, and attention will be focused on improving reporting.

## Financial Management

The Financial Management Department (FMD) implemented effective internal controls through professional data analytics and the robust financial practices and operating policies. The FMD vision is to be a trusted business partner within Markaz. To ensure that FMD efficiently provides unique value-added services to the wider business, the aim is to adopt the latest practices and technologies to streamline operations and transactions. Markaz already had effective systems in place to allow for remote working, which enabled FMD to achieve its goals even through extended periods of lockdown and limited office attendance.

FMD’s current innovation cycle began with a full review of the operating model focusing on the three key areas of People, Process and Technology. This ensured working towards best practices and being organized to adapt to the changing demands that future business strategies inevitably bring.

FMD aimed to find the most effective ways to continuously enhance delivery of Markaz’s core mandate, which is to safeguard clients’ assets, by ensuring full compliance with applicable laws, rules and regulations of the Capital Markets Authority, Central Bank of Kuwait, Ministry of Commerce and Industry and Ministry of Finance. The department also exercised strong budgetary controls and monitored compliance with the company’s various policies and procedures.

## Human Resources

Human Resource management is a strategic function as Markaz considers its employees to be the firm’s most important asset and strives to create a work environment that ensures their continued well-being. To remain competitive. Markaz continues to place emphasis on attracting, enabling and retaining the best talent in the industry. The department remains committed to create a collaborative, transparent and participative work environment. Markaz further enables employees to achieve their full potential and ensure their personal growth is fully aligned with the firm’s growth strategy.

During 2020, the Human Resource department became the lead function in keeping its employees connected and motivated as the organization shifted to remote working during the lockdown and gradually back through the official phases of reduced office attendance. In the office, the department implemented physical layout changes to follow social distancing norms and strict guidelines for safe working which instilled employee confidence. Markaz maintained close vigilance on all employees to detect suspected symptoms of coronavirus and has not had any office transmitted case to date. The firm’s employees have continued to demonstrate strong resolve and conviction to maintain business continuity and business operations remained uninterrupted during the year.

At the start of last year, the Human Resource team was committed to invest in Learning and Development activities. However with the onset of Covid-19, the focus shifted to keep employees motivated while they adopted the new workstyle of work from home. Similarly, Markaz ensured that the Graduate Program delivered the vocational and industry experience it was designed for, by adapting plans to the new work environment.

Looking to 2021, Markaz will continue to remain close to all employees and ensure a safe working environment, especially as a new strain of coronavirus may still pose a threat. Furthermore, the firm aims to upgrade department systems to eliminate physical and paper transactions for staff processes and transactions. The Human Resource team will ensure that Learning and Development programs are being hosted on the Markaz eLearning platform which will enable employees to learn new skills and receive special training required to perform their duties. Overall, the emphasis is to ensure the effectiveness of our people and cross-business teams in collaborating, innovating and growing products and services that will bring sustainable value to clients.

# 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 | Capacity: Executive / Non-Executive / Independent/ Secretary | Qualifications / Experience | Date of Election/ appointing Secretary |
|---|---|---|---|
| **Diraar Yusuf Alghanim** | Chairman | Over 40 years in the financial sector.<br>Professional accountancy from Glasgow University | 28/04/2020 |
| **Faisal AbdulAziz Al-Jallal** | Vice Chairman | Over 40 years of experience in the real estate and financial sectors.<br>University degree from Alexandria University | 28/04/2020 |
| **Ayman Abdullatif Alshaya** | Non-Executive member | Over 30 years of experience in general trade, insurance and financial sector.<br>Bachelor's Degree in Mechanical Engineering from Kuwait University. | 28/04/2020 |
| **Fahad Yaqoub Al-Jouan** | Non-Executive member | Over 30 years of experience in the general trading, industrial and financial sectors.<br>Bachelor's Degree in Business Administration from Eastern Washington University. | 28/04/2020 |
| **Adel Mohammed Alghannam** | Independent member | Over 30 years of experience in the general trading and financial sectors.<br>Bachelor's degree in Business Administration. | 28/04/2020 |
| **Omran Habib Hayat** | Independent member | Over 20 years in the real estate and oil sectors. Bachelors' Degree in Architecture from Miami University and Masters in Project Management & Finance from North Eastern University. | 28/04/2020 |
| **Fahad Sulaiman Aldalali** | Independent member | Over 18 years in the financial and advisory sector.<br>Bachelor's degree in Electrical Engineering from Michigan State University; and a Master's degree in Finance and Accounting from the University of Pennsylvania. | 28/04/2020 |
| **Maha Abdul Salam Imad** | Board Secretary | Bachelors of Science in Business Management from Lebanese American University. | 28/04/2020 |
| **Fedaa Jamal Kittaneh** | Assistant Secretary | University Degree in Business Administration | 28/04/2020 |

### Summary of the Company's Board's Meetings as following:

Summary of the Board's Meetings in 2020

**Attended • Absent x**

| Director | Meeting 1 on 16/02/2020 | Meeting 2 on 28/04/2020 | Meeting 3 on 12/08/2020 | Meeting 4 held on 09/09/2020 | Meeting 5 on 10/11/2020 | Meeting 6 on 18/12/2020 | Number of meetings |
|---|---|---|---|---|---|---|---|
| Diraar Yusuf Alghanim | • | • | • | • | • | • | 6 |
| Faisal AbdulAziz Al-Jallal | • | • | • | • | • | • | 6 |
| Ayman Abdullatif Alshaya | • | • | • | x | • | • | 5 |
| Fahad Yaqoub Al-Jouan | • | • | • | • | • | • | 6 |
| Adel Mohammed AlGhannam | • | • | • | • | • | • | 6 |
| Omran Habib Hayat | x | • | • | • | • | • | 5 |
| Fahad Sulaiman Aldalali | x | • | • | • | • | • | 5 |

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 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 & 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 Policy" is prepared by the Compliance Department and the Board's Secretariat in accordance with the requirements of the Companies Law, the Capital Markets Authority Law, their Executive Bylaws and corporate governance requirements. The Policy, presented to the Board of Directors for approval, defines the roles and responsibilities of the Board, the Chairman, members, Board Committees and procedures to form them. It also outlines the procedures to hold meetings of the Board, its Committees and the Annual General Meeting (AGM), in addition to the procedures for submitting periodic and annual financial statements to the regulatory bodies and ways to disclose them.
- The "Delegation of Powers Policy" and the List of Authorized Signatories are prepared and / or amended by the Compliance and Risk Management Department according to the requirements of the Company's activities and the Law. The Policy and list are submitted to the Executive Management for review. The final versions are presented to the Board of Directors for discussion and approval. Following the approval, the Compliance and Risk Management Departments circulate them to other departments. The Treasury Department also circulates the List of Authorized Signatories to the banks. The Policy and List are updated through recommendations submitted by the Executive Management to the Board in an aim to facilitate the functions of departments and the Company as a whole.
- The "Delegation of Powers- Management Committees" policy is prepared and/or reviewed with respect to the composition of the committees, their roles and responsibilities, and the voting mechanism for each. After the approval of the Board, the Compliance and Risk Management Departments circulate the Policy to all departments. The Policy is updated through recommendations submitted by the Executive Management to the Board in order to add new members to the committees based on their position and functions, an /or to amend the roles and responsibilities of a committee.

Board of Directors 2020 Achievements:

A. Completing the procedures to obtain the final Market Maker license and add it to the Company's Memorandum and Articles of Association.

B. Approving the 2021 budget and the business plan for the next five years.

B. Modifying the organizational structure of the Company as follows:

   i. Grouping departments in four main groups:
      1. Asset management Group
      2. Investment Banking Group
      3. Market Facing: Wealth management & Business Development Group
      4. Enablers Group

   This resulted in:
   - Change in titles of members of the Executive Management, by creating the position of "Managing Director".
   - Registering members of the Executive Management with the CMA in the registered function of "Executive".
   - Merging few departments to benefit from grouping of skills and achieving operational efficiency.
   - Establishing new departments:
      1. Private Equity/Venture Capital Department: to initiate investments in this field.
      2. Strategic Planning Department: to support the departments in setting budgets, budget reviews, business plans, performance monitoring and review.

D. Discussing and approving the company's interim and annual financial statements.

E. Holding training program on regulatory instructions regarding anti-money laundering and combatting the financing of terrorism.

F. Approving the amendments to internal policies and procedures manuals and issuing new policies, the most important of which are:

   i. Amendment to the list of authorized signatories: adding certain financial powers to facilitate workflow.
   ii. Amendment to: "Code of Conduct"; "Conflict of Interest Policy"; "Loans Policy and Procedures"; "Prevention of Leakage of Confidential Information Policy"; "AML Policy and Procedures"; "Stakeholders' Rights Policy"; "Gifts & Gratuities Policy and Procedures"; "Custody of Internal Policies Policy and Procedures"; "Anti-Bribery and anti-corruption Policy & Procedures"; "Business Continuity Policy & Procedures"; "Policy & Procedures on Launch of New Products".
   iii. Issuing "Customer Account Review Policy and Procedures"; "Customer Account Closure Policy & procedures"; "AML Screening and Sanctions Compliance Procedures"; "Post-Acquisition Department - R.E."; "IT Security Policy".

G. Approving the periodic and annual reports: Corporate Governance report; report of internal audit on internal control systems (ICR), the semi-annual Risk Management reports; the external auditors' reports on "Client Assets and Client Funds " and " AML Compliance"; the auditors' report on systems of the Custody Services; the periodic and annual reports on customer and shareholders Complaints; the annual report on whistleblowing and conflicts of interest and the auditors' report on performance assessment of the internal audit unit (every 3 years).

# Corporate Governance Report (continued)

H. Approving the related-parties transactions.
I. Inviting and convening the annual General Meeting to vote on the recommendations approved by the Board on dividends, remuneration of Directors, Remuneration Register, appointment or reappointment of auditors, among other matters.

### 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 2020:
   i. Reviewed the annual and interim financial statements with the external auditors before presenting them to the Board of Directors.
   ii. Approved the annual internal audit plan and discussed the reports of the internal auditor on the departments and recommended corrective measures.
   iii. Recommended the reappointment of the external auditors.
   iv. Approved the appointment of an auditor to assess and review the internal control systems (ICR).
   v. Approve the appointment of an auditor to assess and review Systems and operations of the Custody Services and discuss the report issued by them.
   vi. Reviewed the periodic reports from the Complaints and Loans units.
B. The Committee was formed on April 28, 2020 for a period of three years.
C. Chairman: Faisal AbdulAziz Al-Jallal - Members: Fahad Yaqoub Al-Jouan, Fahad Sulaiman Aldalali.
D. In 2020, the Committee held four meetings.

#### 2. Steering Committee:

A. Roles and achievements of the Executive Committee in 2020:
   i. Reviewed and recommended to the Board the estimated budget for 2021 and the business plan for the years 2021-2025.
   ii. Reviewed the funds management activity and the strategic relationships with major investors.
   iii. Approved the establishment of a number of special purpose companies in the Cayman Islands and Kuwait to serve the Company's investments and clients' investments.
B. The Committee was formed on April 28, 2020 for a period of three years.
C. Chairman: Diraar Yusuf Alghanim - Members: Ayman Abdullatif Alshaya, Fahad Yaqoub Al-Jouan.
D. In 2020, the Committee held two meetings.

#### 3. Risk Management Committee:

A. Roles and achievements of the Risk Management Committee in 2020:
   i. Following up the implementation of the risk management framework and the results of the stress tests program.
   ii. Reviewed the Consultant's report on IT Risks Asssessment.
   iii. Reviewed and discussed the proposed changes to the Organization structure with Executive Management.
   iv. Reviewed the periodic Risk Management reports and the mid-year report before sending it to the CMA.
   v. Reviewed the Risk Matrix and the tracker on raised matters.
   vi. Reviewed the periodic reports on Anti Money Laundering compliance and reports on resignations and their reasons, appointments and their necessity, as well as legal cases filed by or against the Company.
B. The Committee was formed on April 28, 2020 for a period of three years.
C. Chairman: Fahad Yaqoub Al-Jouan - Members: Adel Mohammed Al Ghannam, Omran Habib Hayat.
D. In 2020, the Committee held four meetings.

#### 4. Nominations and Remunerations Committee:

A. Roles and achievements of the Nominations and Remuneration Committee in 2020:
   i. Reviewed the candidacy applications to the board election and recommended them to the Board.
   ii. Approved seeking nominations to the Board of Directors for the next session (2021-2023).
   iii. Reviewed the performance evaluation of Board and Executive Management and recommended them to the Board.
   iv. Reviewed candidacy to CEO position and recommended it to the Board.
B. The Committee was formed on April 28, 2020 for a period of three years.
C. Chairman: Diraar Yusuf Alghanim - Members: Faisal Abdulaziz Al-Jallal, Ayman Abdullatif Alshaya and Adel Mohammed Alghannam.
D. In 2020, 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 Board Secretary and Assistant Board Secretary provide the Board members with sufficient information about the items that will be discussed at least three working days prior to the meeting. The Secretary and Assistant Board Secretary also record all discussions of Board members during each meeting as well as the decisions taken on the agenda items of the minutes. A copy of the previous records is provided in each meeting for approval, in addition to a copy of the record of decisions taken as of date of each meeting.
- The Board Secretary and Assistant Board Secretary prepare Board and committees meetings record that tracks date and time of meetings as well as the attending and absent members. They also conduct a record of taken decisions by Board and committees to summarize these decisions for each meeting held during the year. These records are prepared annually for Board and committees separately.
- The Company implemented Teams platform to conduct the Board and Committees meetings, while giving the directors the choice of physical or remote attendance; board packs are sent by email and on Teams. The Company provides the Board, its Committees and Executive Management with complete reports on the work strategy, budgets,

performance and financial statements. We have consolidated the reports presented to the Board, its Committees and the Executive Management and its Committees, whereby they receive reports prepared from data generated by our systems. We are also working on integrating our systems to help us better deliver full-fledged performance and financial position reports.

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

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

- The formation and responsibilities of the Committee have been identified within the "Board of Directors Policies". The Committee was formed during the first meeting of new Board held on April 28, 2020.
- The new Board confirmed the formation of the Board, its Committees and the independent members during its first meeting held on April 28, 2020.

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

- The Board compensation is a function of the performance of the Company, dividend distribution, attendance, and KPIs that are a function of the corporate governance requirements. Except for the independent board members, the members of the board of directors' compensation shall not exceed 10% of the net profits of the company (after depreciation, reserves and payment of dividends to shareholders not less than 5% of the company's capital or any higher percentage, as provided in the Articles of Association of the company).
- The recommendation was not to disburse a Board remuneration for 2020. The members of the Board Audit Committee's proposed compensation shall be KD15,000 in total, i.e. KD5,000 each for the year 2020.
- All above remuneration and compensation shall be proposed to the General Assembly, and subject to their approval.

The Executive Management

- The Executive Management compensation is composed of a fixed compensation and a variable compensation. The Company periodically compares its compensation plan with what is prevalent in the asset management and investment banking industry, and accordingly, revises the compensation packages to remain in line with the industry.
- The variable Compensation may be expensed in one year, and differed to future years for disbursement to ensure sustainability of performance.

1. The fixed compensation is a function of the responsibilities and financial impact on the company. In addition, employees are awarded other benefits that are customary in the market place.
2. The variable compensation is specific to the executive management role, and is a function of the following:
   a. Profitability of the Company
   b. Contribution to the financial performance of the Company.
   c. Key performance indicators related to the following:
      i. Organization
      ii. Corporate Governance
      iii. Strategic Enhancement
      iv. Risk and Sustainability
      v. Stakeholders relations
      vi. Branding

- In 2020, the Executive Management Committee was awarded the following compensation, as detailed in the compensation schedule disclosed to the shareholders during the General Assembly:

| Executive team | Fixed and allowances earned for partial period because of resignation | Number | Basic Salary | Bonus | Other Allowa -nces | Total |
|---|---|---|---|---|---|---|
| Total Executive Mgmt | | 13 | 713,017 | 214,000 | 88,187 | 1,015,204 |

### 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 first Board meeting for the year 2021, held on February 10, 2021, and discussing the financial statements for the year ended December 31, 2020:

- A memo issued by the Executive Management confirming the soundness and integrity of the financial statements for the year ended December 31, 2020.
- A memo issued by the Financial Management Department regarding the annual review of the capital structure for the year ended December 31, 2020.
- A memo issued by the Financial Management Department regarding the assets and capital expenditures for the year ended December 31, 2020.
- A memo issued by the Financial Management Department regarding the compliance to the delegation of powers by the Executive Management for financial transactions during the year ended December 31, 2020.
- The Board of Directors included an undertaking in the annual report confirming the soundness and integrity of the financial statements for the year ended December 31, 2020.

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

- The Audit Committee was formed with its present members on April 28, 2020, following the election of the members of the Board during the AGM on April 28, 2020.
- 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 three members, one of them is independent, and excludes the Chairman. Members of the Committee have practical and financial experience and qualifications in accounting.

# Corporate Governance Report (continued)

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 2020.

Ensure the independence and impartiality of the external auditor.

- The Audit Committee met and recommended the reappointment of the external auditors registered in CMA's register and met all requirement set forth in the auditors' registration.
- The external auditors are independent from the Company and Board.
- The external auditors do not perform any other work for the company that are not part of review and audit and could affect impartiality or independence.
- 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.
- The signing Partners in the audit firms are rotated every 4 years.

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

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

- The Risk Management Department is fully independent, reports to the Board Risk Management Committee and presents its periodical risk reports to the Committee and the Board.
- The Risk Officer registered with the CMA was changed on 4 January 2021, and the current registered officer holds the position of HoD - Vice President of Risk Management Department. The Risk Management Department employs qualified individuals who have the technical and professional experience in the field.

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

- The Risk Management Committee was formed by the new Board during its first meeting held on April 28, 2020.
- 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. The membership term is 3 years according to the committee's charter.

Summary detailing the internal control systems.

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

- An organizational structure that aligns Markaz's business strategy and activities and define departmental reporting, a detailed job description for jobs, responsibilities and powers.
- Annual review of the internal control systems (ICR), by an independent audit firm other than the company's external auditors, to ensure the adequacy of the internal control systems. The annual report issued by the independent Auditor is submitted to the BAC and to CMA.
- An independent auditor asses the performance of internal audit unit every three years.
- Perform Risk Controls Self-Assessment (RCSA) for departments.
- 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 to achieve double control and principle of segregation of responsibilities to avoid conflicts of duties.
- Establish internal controls to ensure the soundness of assets and containment of responsibilities and claims within the approved limits;
- Provide an accounting system for financial transactions, and issue financial reports and statements in accordance with the principles of accounting;
- Establish controls and systems to detect, evaluate and manage risk factors that affect the various activities of the Company.

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

- The Company has outsourced the internal audit responsibilities to an independent audit office, whereas the internal audit unit acts as the coordinator of internal audit work between the Company and the audit office.
- The Internal Audit Officer registered with the Capital Markets Authority was changed on January 4, 2021; he has the position of Assistant Manager.
- The Internal Audit Officer is responsible for 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.
  - Coordinate the appointment of auditor and preparing periodical reports on the adequacy of internal control systems "ICR".
  - Coordinate the appointment of auditor and preparing reports on the performance of internal audit unit every 3 years.

**Rule 6: Promoting Code of Conduct and Ethical Standards**

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

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

Limiting Conflict of Interest Policy.

- The Company adopted the "Policy on related parties' transactions" to set guidelines to ensure fairness in dealings and transactions with related parties as well as to disclose these types of transactions.
- The term "related parties" and disclosure obligations have been defined in the Kuwaiti Companies Law, International Accounting Standards (IAS) 24 on Disclosures of related parties' transactions, and the Executive Bylaws of the CMA law issued in November 2015, and its amendments.
- The Company classifies persons or parties in the category of "related parties" when they meet at least one criteria stated in the definition of "related parties", in order to comply with accounting standards and applicable regulations.
- The Compliance department maintains a list of names of related parties, which is updated by the Chief Financial Officer (CFO) and reviewed periodically by the Compliance, Risk Management, and Financial Management Departments and the Board Secretary.
- All transactions with related parties are subject to approved terms and conditions in the Company's fair and sound business practices as determined by the Board of Directors.
- All transactions with stakeholders are handled impartially and based on fair market value. Appropriate safeguards are provided if necessary, without imposing preferential conditions beyond the appropriate limits.
- All transactions with related parties must comply with applicable accounting standards and regulations.
- The approval of the Board of Directors and AGM is required to conduct transactions with related parties.
- All transactions with related parties are disclosed in the Annual Report presented in the AGM. Disclosure obligations relating to such transactions are also complied with.
- 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 related parties, they should inform the Head of the Financial Management Department and the Board Secretary immediately. The relevant department is responsible to seek approval from the Board.
- The Executive Management should participate in the negotiation and initial verification process by receiving necessary information in a timely manner and may request further information to present to the Board.
- The Board of Directors may request assistance from one or more independent experts at the Company's expense. There is no set limit for spending on the fees of independent experts appointed by the Company to verify material transactions with related parties.

**Rule 7: Ensuring Timely and High-Quality Disclosure and Transparency**

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

- The Company is committed to the highest degree of accuracy and transparency towards stakeholders when disclosing information in line with regulatory requirements and Company policy. Markaz adopted the "Disclosure and Transparency Policy" and "Procedures of Disclosure and Transparency" which details disclosure requirements, guidelines and responsibilities (including financial, non-financial and regulatory disclosures). The Policy also requires the application of disclosure practices to ensure the disclosure of Company information and material in a fair and professional manner and to provide accurate information in a timely manner for the benefit of internal and external stakeholders in compliance with CMA regulations:
    1. The Company established an Investor Relations Unit responsible for providing information to shareholders.
    2. The Company maintains a record of disclosures related to the members of the Board and Executive Management. Shareholders can review the register through the Investor Relations Unit or at the AGM.
    3. The Company dedicated a section on corporate governance on its website as well as for news and events, disclosures, financial statements and contact information of the Investor Relations Unit.
    4. The Company ensures that important information, financial results and events are immediately posted on the Company's website.
    5. The Company ensures that important events such as the AGM, financial performance and other significant announcements are disclosed as well in newspapers, the Company's website and social media accounts.

# Corporate Governance Report (continued)

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

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

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

- The Investor Relations Unit was established, and an officer was appointed in 2014.
- The Investor Relations Unit was announced and a section was added to the Company's website, which also contains the contact information for the Investor Relations Unit.
- Markaz appointed a global consulting firm based in London to assist in preparing, issuing and distributing quarterly performance reports on the company's activities and results. The Investor Relations Unit coordinates with the consultant to prepare these reports and distribute them to interested parties while the consulting company distributes them to its clients abroad.

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

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

- Financial results;
- Annual reports;
- Company documents;
- Corporate governance;
- Stock performance;
- News and events;
- Disclosures, including:
  - Major shareholders and ownership stakes;
  - Auditors and regulators;
  - Material information.
- Means of communication with the Investor Relations Unit;
- Means of submitting investor complaints.

**Rule 8: Respecting the Rights of Shareholders**

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

- In 2019, The Board viewed and updated "Shareholders' Rights Policy" which was adopted 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 subscribe to rights issues and bonds or sukuks.
  - Right to ownership of shares as kept with and independent registrar.
  - 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 resolutions.
  - 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 Investor Relations Unit of the Company.
  - Preferential treatment is prohibited, and transactions with related parties are subject to scrutiny and specific procedures to ensure fairness and non-conflict.
  - Complaints from investors are responded to by the Investor Relations Unit and the Board Secretariat Department.

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

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

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

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

## Rule 9: Recognizing the Roles of Stakeholders

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

- The Board has approved the "Stakeholders' Rights Policy" in December 2014, and was reviewed and amended in 2020, 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 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 Risk Management and Compliance Departments.

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

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

## Rule 10: Improve and Enhance Performance

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

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

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

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

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

### Human Resources Updates - 2021

### Crisis Management

During 2019 we were in preparation for several projects fundamental to supporting Markaz strategic goals through its people, such as overhaul of our Human Resources Management System, implementation of e-Learning and Learning Management Systems and development of a framework for Leadership, Technical and Behavioural Competencies. Our expectations for 2020 were quickly diverted by COVID-19. HR became the lead function in keeping our people connected and motivated as we shifted to remote working during the H1 lockdown and gradually came back together through the official phases of reduced office attendance.

### Supporting continuity

Once stabilized, we maintained the confidence of our staff and teams in the office environment through strict guidelines for safe working, with physical layout changes to ensure social distancing, prompt action with and for any staff reporting suspected symptoms or COVD-19 contact. This vigilance and staff cooperation have paid off; so far, our business continuity has been seamless – we have not had any office-transmitted cases to date, and there has been no negative impact on company operations.

# Corporate Governance Report (continued)

### Getting back on track

With a delayed start, HR nevertheless pursued its strategic agenda, ensuring essential technical groundwork and supplier relationships were readied and primed for action for when the crisis eventually passes. In anticipation of the economic impact on the business, we achieved operating savings of nearly KWD 130,000 over 2020, reducing or eliminating external services and finding internal efficiencies, all of which we saw as contributing so strongly to the resilience of Markaz that we did not have to ask for or impose personal concessions in terms or benefits on any our staff, which was not the case for employees in the Kuwait market in general and in the financial services sector in particular.

### Slowing down to go faster

We paused our ongoing Learning and Development activities only for as long as it took to replace, and in fact enhance them, through a strong sourcing and adoption of virtual learning experiences; we doubled down on our efforts to chart a full set of up-to date leadership, technical and behavioural competencies around which to keep Markaz up to the highest professional and industry knowledge and capability standards through the selection, development and career progression of our people. In the same vein, we ensured that our Graduate Program likewise delivered the vocational and industry experience it was designed for, by adapting our methods to the new work environment. Otherwise, we suspended the initiation of projects or system makeovers that would have required capital spend in 2020, but both we and our external partners are fully ready to execute on them so long as we are in a healthy 2021 budget position to do so!

### Our sights are set on 2021

Our main deliverables, if circumstances favour them, for 2021 will be to upgrade our HR Systems to entirely do away with physical and paper transactions for staff processes and transactions, to optimally outsource our physical services, and to leverage professional and personal performance; virtual programs hosted on our own eLearning platform will enable our people, and we aim to enhance this through a powerful combination of mentoring, coaching, and specialist training for the new skillsets of the post-Covid-19 world. Our strategic emphasis overall will be on the effectiveness of our people and cross-business teams in collaborating, innovating and growing products and services that will bring sustainable value to our Clients.

## Rule 11: Focusing on Corporate Social Responsibility

Summary on the policy to ensure a balance between Company's objectives and social goals.

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

The strategy was developed based on three pillars:

1. Building human capacity

improving individual skills and capabilities in different fields; culture, sports, health education and economy through supporting active organizations and authorities to achieve sustainable development in Kuwait.

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

Focusing on policy research, studies and events related to the management of public and private sectors in order to develop the best practical solutions to improve the overall business environment.

3. Promoting sound governance in the business environment

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

Summary of programs promoted and supported by the Company for the benefit of the society.

1. Building human capacity

Out of its belief that the sustainable future of Kuwait relies on individuals' skills and capabilities, Markaz is keen to cooperate with reputable non-profit organizations and contribute to human capacity building programs, to empower individuals and enable them to actively participate in sustainable development. Among these organizations are LOYAC, Kuwait Red Crescent Society, Kuwait Association for the Care of Children in Hospitals (KACCH), Children Cancer Center – Lebanon (CCCL), 'Fikra' program for developing the skills of Kuwaiti entrepreneurs, (CODED) program for coding training, the

Indian English Academy School, Kuwait Association of Accountants and Auditors, Maker-fair exhibition, among others.

In 2020, COVID-19 impacted the whole world socially and economically. During the pandemic, Markaz has committed to its CSER strategy through supporting different initiatives, including "Al-Jawhar"'s program organized by Loyac, to grow the youths skills in communication remotely with online workshops presented by reputable, famous media leaders. In addition, Markaz renewed its partnership with Kuwait Red Crescent Society (KRCS) due to the organization's efforts in supporting families affected by the lockdown. Moreover, Markaz's employees have supported KRCS and IICO in Ramadan with internal donation campaign to assist families in need. Markaz has also supported KRCS's efforts to aid the Lebanese people after the explosion at Beirut Port on 4 August 2020. Markaz also supported Kuwait Heart Foundation.

### 2. Aligning our working environment with the best standards of corporate governance

As part of its economic responsibility to align its working environment with the best standards of corporate governance, Markaz was the first to publish research deepening the knowledge base of the financial sector, where a section of published economic policy research was dedicated to proposing practical policies that are applicable to Kuwait and region. The economic policy research initiative initiated by Markaz addressed several important topics such as energy, manpower, economic structuring and administrative reform in public sector institutions. Markaz continues to encourage such research, with the intent to distribute to and discuss solutions with decision-makers in Kuwait and reach for improved practical solutions for the advancement of the business working environment, in partnership with unions and civil institutions.

In 2020, Markaz has issued a special report about the "Impact of Covid-19 on mobility in Kuwait". The report includes a set of recommendations that can be implemented by different sectors to address the challenges caused by disruptions to mobility as a result of the measures taken to curb the spread of the pandemic. The report comes as a continuation of Markaz's efforts to monitor the latest market developments in line with the national initiatives aimed at gradually reviving the economy and returning life to normal. In addition, as part of its partnership with economic federations and civil society organizations, Markaz supported Kuwait Investment Forum organized by Kuwait Direct Investment Promotion Authority.

### 3. Promoting good governance in the business environment

The public sector plays a vital role in the allocation and use of economic resources in Kuwait, given the importance of the government's role in economic development. Therefore, concerted efforts must be made in order to promote the performance of the public sector in driving economic development.

Within this context, Markaz participated in the conference on the "Formulation and Management of Contracts and Resolution of Disputes in Kuwait". Markaz has also participated in many webinars during COVID-19 pandemic, such as "The impact of COVID-19 on Kuwait economy" in collaboration with Kuwait Foundation for the Advancement of Science (KFAS), as well as "The Education Sector in Kuwait post COVID-19 and Investment Opportunities" conference, which discussed the challenges facing this sector due to the pandemic, the impact of the closure of educational institutes and the emerging opportunities in online learning.

# 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 2020, 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 2020, 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 Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

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

#### Management fees and commission income

The Group manages various funds and portfolios on a fiduciary basis for its customers. In addition, the Group provides corporate advisory and other financial services to clients in debt and capital markets. The Group recognized management fees and commission income arising from these services of KD8,131 thousand (31 December 2019: KD8,692 thousand) for the year ended 31 December 2020 as disclosed in the consolidated statement of profit or loss. The recognition of management fees and commission income is dependent on the terms of the underlying management contracts and corporate advisory mandates agreed between the Group and its clients and/or the funds it manages. Management fees are calculated as a percentage of net asset value of the Assets Under Management as contractually agreed with its customers and varies across different funds and products. Due to the inherent risk of fraud associated with revenue recognition and the complexities in the revenue recognition process as described above, we have considered this as a key audit matter. The Group's policy on revenue recognition is disclosed in note 5.3 to the consolidated financial statements.

Our audit procedures included, among others, evaluating the design and implementation of controls management has put in place over valuing underlying fiduciary assets. We have also selected samples of portfolios/funds under management and verified if the underlying assets in those portfolios are fair valued based on market quotes as of the year-end date. We have also re-computed the related management fee on the selected sample of Portfolios/ funds by applying the contractually agreed management fee with the customers on the net asset value of those portfolios. We assessed the disclosures included in the consolidated financial statements relating to this matter against the requirements of IFRSs.

#### Impairment of Investment properties

The Group's investment properties, with a carrying amount of KD75,401 thousand represent 37.3% of the total assets as at 31 December 2020 and consist of land, buildings and projects under development held for rental located in State of Kuwait, Kingdom of Saudi Arabia, United Arab Emirates and United States of America. The investment properties are accounted for using the cost model whereby these investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any, as detailed in notes 5.9 and 6.2.4. Management of the Group determined the fair value of the investment properties, for disclosure and impairment testing purposes, at the reporting date and uses independent valuers to assist in the preparation of these valuations. These valuations are based on a number of assumptions, including estimated rental revenues, capitalization yields, historical transactions, market knowledge, occupancy rates and cost of construction. Considering the negative impact of COVID-19 on the property markets and given the fact that this fair value of investment properties is highly dependent on estimates and judgements, we determined this to be a key audit matter.

# Independent Auditors' Report (continued)

To the Shareholders of Kuwait Financial Centre - KPSC Kuwait

### Impairment of Investment properties (continued)

Our audit procedures included, among others, assessing the design and implementation of controls over the process of the determining the value of the investment properties and assessing management's process for reviewing and assessing the work of the external valuers and their valuations. We assessed the qualifications, reputation, competence and skills of management's external valuers. We assessed the scope of the engagement between the external valuers and the Group to determine if it was sufficient for audit purposes including management's consideration of competence and independence of the external valuers. We reviewed the valuation reports from the external valuers and agreed them to the fair values of the properties. We assessed the valuation methodologies used in assessing the fair value of the investment properties including discussions with the management on the estimates, assumptions and valuation methodology used in assessing the fair value of investment properties. We also reperformed the mathematical accuracy of the valuations on a sample basis. We have also assessed the disclosures included in the consolidated financial statements relating to this matter against the requirements of IFRSs.

## Other Information included in the Group's 2020 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 2020, 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 2020 after the date of our auditors' report.

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

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

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

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

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

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

## Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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 2020 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 2020 that might have had a material effect on the business or on its financial position of the Parent Company.

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

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

Kuwait
10 February 2021

# Consolidated Statement of Profit or Loss

| | Note | Year ended 31 Dec. 2020 KD '000 | Year ended 31 Dec. 2019 KD '000 |
|---|---|---|---|
| **Revenue** | | | |
| Interest income | 8 | 552 | 1,022 |
| Dividend income | | 1,002 | 1,595 |
| Management fees and commission income | 9 | 8,131 | 8,692 |
| (Loss)/gain from financial assets at fair value through profit or loss | 10 | (2,077) | 9,934 |
| Gain on redemption of financial assets at fair value through other comprehensive income | | 20 | - |
| Share of results of associate and joint venture | 21 | (93) | (141) |
| Gain on sale of assets held for sale | 18 | 1,066 | - |
| Gain on sale of investment properties | 22 | 192 | 967 |
| Net rental income | | 2,428 | 1,329 |
| Foreign currency exchange gain | | 846 | 61 |
| Other income | | 1,094 | 32 |
| | | 13,161 | 23,491 |
| **Expenses and other charges** | | | |
| General and administrative expenses | 11 | (10,057) | (12,001) |
| Finance costs | 12 | (2,658) | (2,780) |
| Other expenses | | (765) | (188) |
| Impairment of investment properties (net) | 22 | (2,072) | (1,065) |
| | | (15,552) | (16,034) |
| **(Loss)/profit before provisions for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Directors' remuneration** | | (2,391) | 7,457 |
| Provision for contribution to KFAS | | | (68) |
| Provision for NLST | | - | (194) |
| Provision for Zakat | | - | (78) |
| Provision for Directors' remuneration | 30 | - | (175) |
| **(Loss)/profit for the year** | | (2,391) | 6,942 |
| **(Loss)/profit for the year attributable to:** | | | |
| Owners of the Parent Company | | (1,715) | 6,957 |
| Non-controlling interests | | (676) | (15) |
| **(Loss)/profit for the year** | | (2,391) | 6,942 |
| **Basic and diluted (loss)/earnings per share attributable to the owners of the Parent Company** | 13 | (4) Fils | 15 Fils |

The notes set out on pages 44 to 88 form an integral part of these consolidated financial statements.

# Consolidated Statement of Profit or Loss and other Comprehensive Income

| | Year ended 31 Dec. 2020 KD '000 | Year ended 31 Dec. 2019 KD '000 |
|---|---|---|
| (Loss)/profit for the year | (2,391) | 6,942 |
| **Other comprehensive income/(loss):** | | |
| Items that will be reclassified subsequently to statement of profit or loss: | | |
| Financial assets at fair value through other comprehensive income: | | |
| Net change in fair value arising during the year | 407 | (9) |
| Transferred to consolidated statement of profit or loss on redemption | (20) | - |
| Foreign currency translation: | | |
| Exchange differences arising on translation of foreign operations | 39 | (161) |
| Share of other comprehensive loss of associate and joint venture | (124) | (7) |
| **Total other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods** | 302 | (177) |
| **Items not to be reclassified to profit or loss in subsequent periods:** | | |
| Change in fair value of financial assets at FVOCI | - | (365) |
| **Total other comprehensive income/(loss)** | 302 | (542) |
| **Total comprehensive (loss)/income for the year** | (2,089) | 6,400 |
| **Total comprehensive (loss)/income for the year attributable to:** | | |
| Owners of the Parent Company | (1,566) | 6,599 |
| Non-controlling interests | (523) | (199) |
| | (2,089) | 6,400 |

The notes set out on pages 44 to 88 form an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

| | Note | 31 Dec. 2020 KD '000 | 31 Dec. 2019 KD '000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and bank balances | 14 | 9,951 | 4,937 |
| Time deposits | 14 | 9,483 | 1,332 |
| Accounts receivable and other assets | 15 | 6,663 | 7,430 |
| Loans to customers | 16 | 505 | 405 |
| Financial assets at fair value through profit or loss | 17 | 90,101 | 106,646 |
| Assets held for sale | 18 | - | 7,819 |
| Financial assets at fair value through other comprehensive income | 19 | 410 | 2,735 |
| Financial assets at amortised cost | 20 | 4,988 | 9,099 |
| Investment in associate and joint venture | 21 | 3,415 | 3,594 |
| Investment properties | 22 | 75,401 | 55,256 |
| Right-of-use assets | | 328 | 600 |
| Equipment | | 928 | 1,084 |
| **Total assets** | | **202,173** | **200,937** |
| | | | |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Due to banks | 14 | 649 | - |
| Accounts payable and other liabilities | 23 | 10,299 | 15,307 |
| Bank borrowings | 24 | 21,081 | 41,632 |
| Bonds issued | 25 | 44,350 | 25,000 |
| **Total liabilities** | | **76,379** | **81,939** |
| | | | |
| **Equity** | | | |
| Share capital | 26 | 48,080 | 48,080 |
| Share premium | 26 | 7,902 | 7,902 |
| Treasury shares | 27 | (260) | (260) |
| Statutory reserve | 28 | 16,752 | 16,752 |
| Voluntary reserve | 28 | 15,107 | 15,107 |
| Other components of equity | 29 | 346 | 197 |
| Retained earnings | | 3,299 | 7,417 |
| **Equity attributable to the owners of the Parent Company** | | **91,226** | **95,195** |
| Non-controlling interests | 7.2 | 34,568 | 23,803 |
| **Total equity** | | **125,794** | **118,998** |
| **Total liabilities and equity** | | **202,173** | **200,937** |

**Diraar Yusuf Alghanim**
Chairman

**Ali Hassan Khalil**
Chief Executive Officer

The notes set out on pages 44 to 88 form an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

| | Note | Year ended 31 Dec. 2020 KD '000 | Year ended 31 Dec. 2019 KD '000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **(Loss)/profit for the year** | | **(2,391)** | 6,942 |
| Adjustments for: | | | |
| Interest income | | **(552)** | (1,022) |
| Depreciation and amortisation | | **1,628** | 1,319 |
| Share of results of associate and joint venture | | **93** | 141 |
| Gain on sale of assets held for sale | | **(1,066)** | - |
| Gain on sale of investment properties | | **(192)** | (967) |
| Impairment of investment properties (Net) | | **2,072** | 1,065 |
| Finance costs | | **2,658** | 2,780 |
| | | **2,250** | 10,258 |
| Changes in operating assets and liabilities: | | | |
| Financial assets at fair value through profit or loss | | **6,946** | (13,972) |
| Accounts receivable and other assets | | **1,788** | (3,519) |
| Loans to customers | | **(100)** | (101) |
| Accounts payable and other liabilities | | **(5,886)** | 3,607 |
| **Net cash from/(used in) operating activities** | | **4,998** | (3,727) |
| **INVESTING ACTIVITIES** | | | |
| Change in time deposits maturing after three months | | **(43)** | 4 |
| Purchase of equipment | | **(267)** | (578) |
| Proceeds from financial assets at amortised cost | | **316** | 2,080 |
| Purchase of financial assets at amortised cost | | **(310)** | (4,181) |
| Proceeds from redemption of investments at fair value through OCI | | **354** | 15 |
| Purchase of investments at fair value through OCI | | **-** | (2,697) |
| Additions to investment properties | | **(258)** | (9,152) |
| Proceeds from sale of investment properties | | **1,114** | 2,443 |
| Proceeds from sale of assets held for sale | | **10,960** | - |
| Increase in investment in joint venture | | **(38)** | (91) |
| Interest income received | | **943** | 615 |
| Net cash from consolidation of subsidiaries | | **483** | - |
| **Net cash from/(used in) investing activities** | | **13,254** | (11,542) |
| **FINANCING ACTIVITIES** | | | |
| Dividend paid | | **(2,330)** | (2,363) |
| Proceeds from bank borrowings | | **5,919** | 25,173 |
| Repayment of bank borrowings | | **(26,480)** | (6,106) |
| Proceeds from bonds issued | | **35,000** | - |
| Repayment of bond issued | | **(15,650)** | - |
| Payment of lease liability | | **(271)** | (293) |
| Net change in non-controlling interests | | **792** | 1,000 |
| Finance costs paid | | **(2,731)** | (3,007) |
| **Net cash (used in)/from financing activities** | | **(5,751)** | 14,404 |
| **Increase/(decrease) in cash and cash equivalents** | | **12,501** | (865) |
| Foreign currency adjustments | | **(28)** | (118) |
| Cash and cash equivalents at the beginning of the year | 14 | **6,252** | 7,235 |
| **Cash and cash equivalents at the end of the year** | 14 | **18,725** | 6,252 |

The notes set out on pages 44 to 88 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** | **Treasury shares KD '000** | **Statutory reserve KD '000** |
| **Balance at 1 January 2020** | **48,080** | **7,902** | **(260)** | **16,752** |
| Effect of change in non-controlling interests due to consolidation (refer note 7.1.2 & note 7.1.3) | - | - | - | - |
| Net change in non-controlling interests (refer note 7) | - | - | - | - |
| Effect of change in ownership percentage of subsidiaries (refer note 7.1.1) | - | - | - | - |
| Payment of cash dividend (refer note 30) | - | - | - | - |
| Payment of cash dividend to non-controlling interests' shareholders (refer note 7.2) | - | - | - | - |
| Transactions with owners | - | - | - | - |
| Loss for the year | - | - | - | - |
| Total other comprehensive income | - | - | - | - |
| Total comprehensive income/(loss) for the year | - | - | - | - |
| **Balance at 31 December 2020** | **48,080** | **7,902** | **(260)** | **16,752** |

| | Equity attributable to the owners of the Parent Company | | | |
|---|---|---|---|---|
| | **Share capital KD '000** | **Share premium KD '000** | **Treasury shares KD '000** | **Statutory reserve KD '000** |
| **Balance at 1 January 2019** | 48,080 | 7,902 | (260) | 16,005 |
| Net change in non-controlling interests | - | - | - | - |
| Effect of change in ownership percentage of subsidiaries (refer note 7.1.1) | - | - | - | - |
| Payment of cash dividend (refer note 30) | - | - | - | - |
| Payment of cash dividend to non-controlling interests' shareholders (refer note 7.2) | - | - | - | - |
| Transactions with owners | - | - | - | - |
| Profit/(loss) for the year | - | - | - | - |
| Total other comprehensive loss | - | - | - | - |
| Total comprehensive (loss)/income for the year | - | - | - | - |
| Transfer to reserves | - | - | - | 747 |
| **Balance at 31 December 2019** | 48,080 | 7,902 | (260) | 16,752 |

The notes set out on pages 44 to 88 form an integral part of these consolidated financial statements.

| Voluntary reserve KD '000 | Other components of equity (note 29) KD '000 | Retained earnings KD '000 | Sub Total KD '000 | Non-controlling interests KD '000 | Total KD '000 |
|---|---|---|---|---|---|
| **15,107** | **197** | **7,417** | **95,195** | **23,803** | **118,998** |
| **-** | **-** | **-** | **-** | **11,528** | **11,528** |
| **-** | **-** | **-** | **-** | **(75)** | **(75)** |
| **-** | **-** | **(12)** | **(12)** | **12** | **-** |
| **-** | **-** | **(2,391)** | **(2,391)** | **-** | **(2,391)** |
| **-** | **-** | **-** | **-** | **(177)** | **(177)** |
| **-** | **-** | **(2,403)** | **(2,403)** | **11,288** | **8,885** |
| **-** | **-** | **(1,715)** | **(1,715)** | **(676)** | **(2,391)** |
| **-** | **149** | **-** | **149** | **153** | **302** |
| **-** | **149** | **(1,715)** | **(1,566)** | **(523)** | **(2,089)** |
| **15,107** | **346** | **3,299** | **91,226** | **34,568** | **125,794** |

| Voluntary reserve KD '000 | Other components of equity (note 29) KD '000 | Retained earnings KD '000 | Sub Total KD '000 | Non-controlling interests KD '000 | Total KD '000 |
|---|---|---|---|---|---|
| 14,360 | 555 | 4,408 | 91,050 | 23,002 | 114,052 |
| - | - | - | - | 1,484 | 1,484 |
| - | - | (63) | (63) | 229 | 166 |
| - | - | (2,391) | (2,391) | - | (2,391) |
| - | - | - | - | (713) | (713) |
| - | - | (2,454) | (2,454) | 1,000 | (1,454) |
| - | - | 6,957 | 6,957 | (15) | 6,942 |
| - | (358) | - | (358) | (184) | (542) |
| - | (358) | 6,957 | 6,599 | (199) | 6,400 |
| 747 | - | (1,494) | - | - | - |
| 15,107 | 197 | 7,417 | 95,195 | 23,803 | 118,998 |

# Notes to the Consolidated Financial Statements

### 1. Incorporation and activities

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

The principal activities of the Parent Company are as follows:

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

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

The Parent Company's Board of Directors approved these consolidated financial statements for issue on 10 Febraury 2021 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 at fair value through other comprehensive income and derivative financial instruments that have been measured at fair value.

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

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.

### 3. Statement of compliance

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait ("CBK") in the State of Kuwait. These regulations including the recently issued CBK circulars on regulatory measures in response to COVID 19 and related CBK communication, require financial services institutions regulated by CBK to adopt the International Financial Reporting Standards with the following amendment:

Expected credit loss ("ECL") on credit facilities to be measured at the higher of the ECL computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instruction along with its consequent impact on related disclosures.

The above framework is hereinafter referred to as "IFRS as adopted by CBK for use by the State of Kuwait".

## 4. Changes in accounting policies

### 4.1 New and amended standards adopted by the Group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2020 which have been adopted by the Group. Information on these new standards which are relevant to the Group, is presented below:

| Standard or Interpretation | Effective for annual periods beginning |
|---|---|
| IFRS 3 - Amendments - Definition of Business | 1 January 2020 |
| IAS 1 and IAS 8 - Amendment - Definition of Material | 1 January 2020 |
| IBOR Transition (Interest Rate Benchmark Reforms Phase 1) | 1 January 2020 |
| IFRS 16 - Amendments - Covid 19 Rent Related Concessions | 1 June 2020 |

#### IFRS 3 - Amendments - Definition of Business

The Amendments to IFRS 3 Business Combinations are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only with respect to Definition of Business. The amendments:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business

The application of the amendments did not have a significant impact on the Group's consolidated financial statements.

#### IAS 1 and IAS 8 - Amendments

The amendments to IAS 1 and IAS 8 clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The application of the amendments did not have a significant impact on the Group's consolidated financial statements.

#### IBOR Transition (Interest Rate Benchmark Reforms Phase 1)

Effective from 1 January 2020, the Group has adopted amendments to IFRS9 Financial Instruments and IFRS7 Financial Instruments Disclosures relating to interest rate benchmark reforms. The amendments (referred as Phase I of IBOR transition project) address the hedge accounting requirements arising before IBOR and proposed a hedging relief for such hedges.

The Group does not currently have any hedging instruments. Hence, the IBOR reform Phase 1 does not have any significant impact on Group's Consolidated financial statements.

#### IFRS 16 - Amendments - COVID19 Rent Related Concessions

IFRS 16 contains specific requirements when accounting for changes to lease payments and rent concessions are in the scope of these requirements. Lessees are required to assess whether rent concessions are lease modifications, and if they are, there is specific accounting to be applied. However, applying these requirements to potentially a significant number of leases could be difficult, particularly from a practical perspective due to pressures resulting from the pandemic.

The practical expedient allows lessees to elect to not carry out an assessment to decide whether a COVID-19-related rent concession received is a lease modification. The lessee is permitted to account for the rent concession as if the change is not a lease modification.

The practical expedient is only applicable to rent concessions provided as a direct result of the COVID-19 pandemic. The relief is only for lessees that are granted these rent concessions. There are no changes for lessors.

All of the following conditions need to be met:

- The rent concession provides relief to payments that overall results in the consideration for the lease contract being substantially the same or less than the original consideration for the lease immediately before the concession was provided.

# Notes to the Consolidated Financial Statements (continued)

## 4. Changes in accounting policies (continued)

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

IFRS 16 - Amendments - COVID19 Rent Related Concessions (continued)

- The rent concession is for relief for payments that were originally due on or before 30 June 2021. So payments included are those required to be reduced on or before 30 June 2021, but subsequent rental increases of amounts deferred can go beyond 30 June 2021.
- There are no other substantive changes to the other terms and conditions of the lease.

The application of the amendments did not have a significant impact on the Group's consolidated financial statements.

### 4.2 IASB Standards issued but not yet effective

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

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

| Standard or Interpretation | Effective for annual periods beginning |
|---|---|
| IFRS 10 and IAS 28 Sale or Contribution of Assets betweenan Investor and its Associate or Joint Venture - Amendments | No stated date |
| IAS 16 - Amendments - Proceeds before intended use | 1 January 2022 |
| IAS 37 - Amendments - Onerous contracts - Cost of fulfilling a contract | 1 January 2022 |
| Annual Improvements 2018-2020 Cycle | 1 January 2022 |
| Interest Rate Benchmark Reform-Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) | 1 January 2021 |
| IAS 1 - Amendments - Classification of liabilities as current or non-current | 1 January 2023 |

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.

IAS 16 Amendments - Proceeds before intended use

The amendment prohibits an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity will recognise such sales proceeds and related cost in profit or loss.

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

IAS 37 Amendments - Onerous contracts - Cost of fulfilling a contract

The amendments specify which costs an entity includes when assessing whether a contract will be loss-making.

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The amendments are only to be applied to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual period in which it first applies the amendments.

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

### Annual Improvements 2018-2020 Cycle

Amendment to IAS 1 simplifies the application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences. Subsidiary that is a first-time adopter later than its parent might have been required to keep two parallel sets of accounting records for cumulative translation differences based on different dates of transition to IFRSs. However, the amendment extends the exemption to cumulative translation differences to reduce costs for first-time adopters.

Amendment to IFRS 9 relates to the '10 per cent' Test for Derecognition of Financial Liabilities – In determining whether to derecognise a financial liability that has been modified or exchanged, an entity assesses whether the terms are substantially different. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

Lease Incentives - amendment to illustrative examples - The IASB was informed about the potential for confusion in applying IFRS 16 Leases because of how Illustrative Example 13 accompanying IFRS 16 had illustrated the requirements for lease incentives. Before the amendment, Illustrative Example 13 had included as part of the fact pattern a reimbursement relating to leasehold improvements; the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in IFRS 16. The IASB decided to remove the potential for confusion by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements.

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

### Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

On 27 August 2020 the IASB published 'Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS9, IAS39, IFRS7, IFRS4 and IFRS16' (IBOR reform Phase2). IBOR reform Phase2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an Inter-Bank Offered Rate (an IBOR) with an alternative nearly risk-free interest rate (an RFR). The amendment is effective for annual reporting periods beginning on or after 1 January 2021 with earlier adoption permitted.

The Group has exposure to contracts referencing IBORs, such as LIBOR, extending beyond year 2021, when it is likely that these IBORs will cease being published. The Group is currently assessing the impact of the its transition to the new rate regimes after 2021 and will continue to engage with internal and external stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

### IAS 1 Amendments - Classification of liabilities as current or non-current

The amendments to IAS 1 clarify the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period. Stating management expectations around whether they will defer settlement or not does not impact the classification of the liability. It has added guidance about lending conditions and how these can impact classification and has included requirements for liabilities that can be settled using an entity's own instruments.

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

# Notes to the Consolidated Financial Statements (continued)

## 5. Summary of significant accounting policies

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

### 5.1 Basis of consolidation

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

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

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

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.

### 5.2 Business combinations

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

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

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interests in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in the consolidated statement of profit or loss immediately.

### 5.3 Revenue recognition

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

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

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

The Group recognises revenue from the following major sources:

#### 5.3.1 Rendering of services

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

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

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

##### Fee income from providing transaction services

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

#### 5.3.2 Interest income

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

#### 5.3.3 Dividend income

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

#### 5.3.4 Rental income

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

#### 5.3.5 Revenue from sale of investment properties

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

### 5.4 Operating expenses

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

### 5.5 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalised During the year 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 attributable to the shareholders of the Parent Company in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from Kuwaiti shareholding associates and subsidiaries and transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

#### 5.6.2 National Labour Support Tax (NLST)

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

# 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 attributable to the shareholders of the Parent Company in accordance with the Ministry of Finance Resolution No. 58/2007 effective from 10 December 2007.

Under the NLST and Zakat regulations, no carry forward of losses to the future years or any carry back to prior years is permitted.

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. Properties under development also include properties that are being constructed or developed for future use as investment properties and are not depreciated.

Investment properties are initially measured at cost, including transaction costs and where applicable borrowing costs. Subsequent to initial recognition, investment properties are accounted for using the cost model whereby these investment properties are stated at cost less accumulated depreciation and impairment losses, if any. The Group depreciates its investment properties except lands and projects under development on the straight-line method over their expected useful lives of 37 - 50 years.

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

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

### 5.10 Equipment

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

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

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

The following useful lives are applied:

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

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

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

### 5.11 Financial instruments

Financial assets and financial liabilities are recognised in the Group's consolidated financial position when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are measured initially at fair value. On initial recognition, transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### 5.11.1 Classification and Measurement of Financial assets

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

#### Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective and in order to generate contractual cash flows. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on a number of observable factors such as:

- The stated policies and objectives for the financial assets and the operation of those policies in practice;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

# Notes to the Consolidated Financial Statements (continued)

## 5. Summary of significant accounting policies (continued)

### 5.11 Financial instruments (continued)

#### 5.11.1 Classification and Measurement of Financial assets (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

The Group classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost
- Financial assets carried at fair value through profit or loss (FVTPL)
- Financial assets carried at fair value through other comprehensive income (FVOCI)

Financial assets carried at Amortised cost:

A financial asset is carried at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of profit or loss. Any gain or loss on derecognition is recognised in the consolidated statement of profit or loss.

The Group's financial assets at amortised cost comprise of the followings:

Loans and advances

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

Accounts receivable and other assets

Receivables are stated at original invoice amount less allowance for any impairment.

Debt instruments

Debt instruments classified at amortized cost represents investment in sukuk and loans given.

Cash and cash equivalents

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

Financial asset carried at FVTPL:

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument at FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of profit or loss. Interest income is recognised using the effective interest method. Dividend income from equity investments measured at FVTPL is recognised in the consolidated statement of profit or loss when the rights to receive cash flows has been established.

Equity instruments at FVOCI:

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by- instrument basis.

Gains and losses on subsequent measurement of these equity instruments are never recycled to consolidated statement of profit or loss. Dividends are recognised in consolidated statement of profit or loss when the rights to receive cash flows has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in other comprehensive income. Equity instruments at FVOCI are not subject to an impairment assessment. Upon derecognition cumulative change in fair value are reclassified from fair value reserve to retained earnings in the consolidated statement of changes in equity.

Debt instruments at FVOCI:

The Group measure debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

Debt instruments at FVOCI are subsequently measured at fair value and gains and losses arising due to changes in fair value are recognised in other comprehensive income. Interest income and foreign exchange gains or losses are recognised in the consolidated statement of profit or loss. On derecognition, cumulative gains or losses previously recognised in other comprehensive income is reclassified from equity to the consolidated statement of profit or loss. The management of the Group classifies certain unquoted debt instruments under debt instruments at FVOCI.

Foreign exchange gains and losses on financial assets:

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss;
- for debt instruments measured at FVOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss. Other exchange differences are recognised in other comprehensive income in the fair value reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss; and
- for equity instruments measured at FVOCI, exchange differences are recognised in other comprehensive income in the fair value reserve.

Impairment of Financial Assets:

The Group computes Expected Credit Losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

- Loans to customers
- Bank balances and time deposits
- Accounts receivables and other financial assets

Equity investments are not subject to Expected Credit Losses.

### Impairment of loans to customers:

Loans to customers granted by the Group consists of loans given to staff. Impairment on loans to customers shall be recognised in the consolidated statement of financial position at an amount equal to the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

### Impairment of financial assets other than loans to customers:

The Group recognises ECL on investment in debt instruments measured at amortised cost or FVOCI and on balances and deposits with banks and accounts receivables.

### Expected Credit Losses

The Group applies three-stage approach to measuring expected credit losses (ECL) as follows:

### Stage 1: 12 months ECL

The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

### Stage 2: Lifetime ECL - not credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

# Notes to the Consolidated Financial Statements (continued)

**5. Summary of significant accounting policies (continued)**

**5.11 Financial instruments (continued)**

5.11.1 Classification and Measurement of Financial assets (continued)

Stage 3: Lifetime ECL - credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12-month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

Determining the stage of impairment

At each reporting date, the Group assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due.

At each reporting date, the Group also assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

Measurement of ECLs

ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro-economic scenarios etc.

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

Provision for credit losses in accordance with CBK instructions

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

A credit facility is classified as a bad loan (non-performing loan) when the interest or a principal instalment is past due more than 90 days, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. In addition to specific provisions, Expected Credit Loss ("ECL") to be measured at the higher of the ECL on credit facilities computed under IFRS 9 according to the CBK guidelines or the provisions as required by CBK instruction which is minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning. Past due and past due and impaired loans are managed and monitored as irregular facilities.

5.11.2 Classification and Measurement of Financial Liabilities

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

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

Financial liabilities at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated at FVTPL, are measured subsequently at amortised cost using the effective interest method. Accounts payable and other liabilities, borrowings and bonds issued are classified as financial liabilities measured subsequently at amortised cost.

### Accounts payable and other liabilities

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

### Borrowings

#### Murabaha facilities

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

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

#### Bonds

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

### Foreign exchange gains and losses on financial liabilities:

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in profit or loss, for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognised in other comprehensive income and accumulated in a separate component of equity.

### Derecognition of financial assets and financial liabilities:

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

### Derivative financial instruments and hedge accounting:

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the consolidated financial statements unless the Group has both legal right and intention to offset.

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

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

# Notes to the Consolidated Financial Statements (continued)

## 5. Summary of significant accounting policies (continued)

### 5.11 Financial instruments (continued)

#### 5.11.2 Classification and Measurement of Financial Liabilities (continued)

Derivative financial instruments and hedge accounting: (continued)

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

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

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

### 5.12 Trade and settlement date accounting

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

### 5.13 Amortised cost of financial instruments

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

### 5.14 Offsetting of financial instruments

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

### 5.15 Fair value of financial instruments

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 37.

### 5.16 Impairment testing of non-financial assets

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

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

### 5.17 Equity, reserves and dividend payments

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

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

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

Other components of equity include the following:

- foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into Kuwait Dinars.

- Fair value reserve - comprises gains and losses relating to financial assets which are categorised as financial assets at fair value through other comprehensive income.

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

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

### 5.18 Treasury shares

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

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

### 5.19 Provisions, contingent assets and contingent liabilities

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

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

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

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

### 5.20 Foreign currency translation

#### 5.20.1 Foreign currency transactions

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

#### 5.20.2 Foreign operations

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

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)

### 5.21 End of service indemnity

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date

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

### 5.22 Fiduciary assets

Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly are not included in these consolidated financial statements.

### 5.23 Segment reporting

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

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

### 5.24 Non-current assets and liabilities classified as held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Any profit or loss arising from the sale of a non-current assets held for sale or its remeasurement to fair value less costs to sell is presented as part of a single line item in profit or loss.

### 5.25 Leased assets

#### The Group as a lessee

For any new contracts entered into on or after 1 January 2020, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

#### Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet measured as follows:

#### Right-of-use asset

The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

Subsequent to initial measurement, the Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

### Lease liability

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

## 6. Significant management judgements and estimation uncertainty

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

## 6.1 Significant management judgments

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

### 6.1.1 Business model assessment

The Group classifies financial assets after performing the business model test (please see accounting policy for financial instruments sections in note 5.11). This test includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured and the risks that affect the performance of the assets. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

### 6.1.2 Classification of real estate

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

The Group classifies properties under development as Investment properties if it acquired with the intention of holding it to earn rental income or capital appreciation upon completion of the 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.

### 6.1.4 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.

# Notes to the Consolidated Financial Statements (continued)

## 6. Significant management judgements and estimation uncertainty (continued)

### 6.2 Estimates uncertainty

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

#### 6.2.1 Impairment of associate and joint venture

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

#### 6.2.2 Impairment of financial assets

Measurement of estimated credit losses involves estimates of loss given default and probability of default. Loss given default is an estimate of the loss arising in case of default by customer. Probability of default is an estimate of the likelihood of default in the future. The Group based these estimates using reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

#### 6.2.3 Provision for credit losses

The Group reviews its loans to customers on a regular basis to assess whether a provision for credit losses should be recorded in the consolidated statement of profit or loss. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessary based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

#### 6.2.4 Impairment of investment properties

The Group reviews the carrying amounts of its investment properties to determine whether there is any indication that those assets have suffered an impairment loss or indication that an impairment loss previously recognised may no longer exist in accordance with accounting policies stated in note 5.9 & note 5.16. The recoverable amount of an asset is determined based on higher of fair value and value in use.

#### 6.2.5 Depreciation of investment properties and equipment

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

#### 6.2.6 Fair value of financial instruments

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (refer note 37).

## 7. Subsidiary companies

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

| Name of the subsidiary | Country of incorporation | Ownership percentage 31 Dec. 2020 % | Ownership percentage 31 Dec. 2019 % | Principal activity |
|---|---|---|---|---|
| Mar-Gulf Management Inc. | USA | **100.00** | 100.00 | Assets management |
| Markaz First Management and Economic Consultancy Company - KSCC | Kuwait | **95.00** | 95.00 | Economic consultancy |
| Markaz Arabian Fund (note 7.1.1) | Bahrain | **69.40** | 69.31 | Investment Fund |
| Markaz Fixed Income Fund | Kuwait | **80.65** | 80.65 | Investment Fund |
| MDI Management Limited | Cayman Islands | **66.66** | 66.66 | Property management |
| MDI Ventures Ltd | Cayman Islands | **50.00** | 50.00 | Property management |
| Markaz Offshore I Ltd. | Cayman Islands | **100.00** | 100.00 | Investment |
| Marmore Mena Intelligence Private Limited | India | **98.73** | 98.73 | Consultancy |
| Aradi Development Limited | Cayman Islands | **96.89** | 96.89 | Real Estate |
| Markaz Real Estate Investment Company WLL | KSA | **100.00** | 100.00 | Real Estate |
| Rimal Venture Company WLL | Bahrain | **100.00** | 100.00 | Assets management |
| Arab Gulf Real Estate Development Company WLL | Kuwait | **99.85** | 99.85 | Real Estate |
| Bay View Real Estate Company WLL | Kuwait | **99.85** | 99.85 | Real Estate |
| Boardwalk International Real Estate Company WLL | Kuwait | **99.85** | 99.85 | Real Estate |
| Al Rihab Real Estate Development Company WLL | Kuwait | **99.85** | 99.85 | Real Estate |
| Al Bandriya Real Estate Company WLL | Kuwait | **99.85** | 99.85 | Real Estate |
| Sand Park Real Estate Co. SPC | Kuwait | **-** | 100.00 | Real Estate |
| Azzuri Real Estate Co. WLL | Kuwait | **100.00** | 100.00 | Real Estate |
| Real Estate Options Co. LLC | UAE | **100.00** | 100.00 | Real Estate |
| Markaz European Development 1 SARL | Luxembourg | **68.37** | 68.37 | Real Estate |
| Markaz Development 3 (note 7.1.2) | Cayman Islands | **62.64** | 67.67 | Real Estate |
| Markaz Gulf Real Estate Fund (note 7.1.3) | Kuwait | **48.45** | - | Real Estate Fund |

7.1.1 The ownership of Markaz Arabian Fund increased by 0.09% (31 December 2019: decreased by 0.44%) and Markaz Development 3 decreased by 5.03% (31 December 2019: Nil) due to changes in units and shares held by non-controlling interests holders as a result of subscription and redemption of the fund's units and entity shares. These changes in the ownership resulted in a net loss of KD12 thousand (31 December 2019: net loss of KD229 thousand) which was included in the consolidated statement of changes in equity.

#### 7.1.2 Consolidation of SPV

During the year, the Group concluded that through one of the subsidiary companies (Markaz Development 3 Ltd), the Group is able to control the structured entities incorporated in Delaware, USA, which were recognised as investments carried at amortized cost and financial assets at FVOCI in the previous year. Accordingly, during the year, the Group has consolidated financial statements of these entities in the consolidated financial statements of the Group, as of 30 September 2020. The acquisition was accounted in accordance with IFRS 3 as follows:

# Notes to the Consolidated Financial Statements (continued)

## 7. Subsidiary companies (continued)

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

#### 7.1.2 Consolidation of SPV (continued)

| | KD '000 |
|---|---|
| Fair value of the existing investments | 5,420 |
| Value of non-controlling interests | 1,315 |
| | 6,735 |
| **Less: recognized amounts of identifiable assets acquired and liabilities assumed** | |
| Cash and cash equivalents | 288 |
| Investment properties | 3,812 |
| Accounts receivables and other assets | 3,307 |
| Accounts payable and other liabilities | (672) |
| Total identifiable net assets | 6,735 |
| **Gain/(bargain purchase) on acquisition of subsidiaries** | - |

#### 7.1.3 Consolidation of a fund

During the year, the Group obtained the control in one of its real estate funds (Markaz Gulf Real Estate Fund) which was previously recognised as financial assets at FVTPL. Accordingly, during the year, the Group has consolidated financial statements of this fund in the consolidated financial statements of the Group, as of 31 December 2020.

Summarised financial information of the above newly consolidated subsidiary is as follows:

| | KD '000 |
|---|---|
| Fair value of the existing investments | 9,599 |
| Value of non-controlling interests | 10,213 |
| | 19,812 |
| **Less: recognized amounts of identifiable assets acquired and liabilities assumed** | |
| Cash and cash equivalents | 195 |
| Investment properties | 19,994 |
| Accounts receivables and other assets | 112 |
| Accounts payable and other liabilities | (489) |
| Total identifiable net assets | 19,812 |
| **Gain/(bargain purchase) on acquisition of subsidiary** | - |

For the purpose of the consolidated statement of cash flows, the net cash inflow on acquisition of these subsidiaries is KD483 thousand. No impact to the consolidated statement of profit or loss from the above newly consolidated subsidiary since it's consolidated as of 31 December 2020.

The initial accounting for the business combination was completed during the current year based on acquisition-date fair values of the assets acquired and the liabilities assumed.

Markaz Gulf Real Estate Fund didn't recognised any revenue or expenses during the year since it's consolidated as of 31 December 2020. If the acquisition had taken place on 1 January 2020, the Group revenue for the period would have been higher by KD1,049 thousand and loss would have been lower by KD1,404 thousand.

### 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 | | Profit/(loss) allocated to NCI | | Accumulated NCI | |
|---|---|---|---|---|---|---|
| | **31 Dec. 2020 %** | 31 Dec. 2019 % | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 |
| Arab Gulf Real Estate Development Company WLL | **0.15** | 0.15 | **165** | (972) | **4,514** | 4,350 |
| Bay View Real Estate Company WLL | **0.15** | 0.15 | **(877)** | 81 | **4,638** | 5,508 |
| Al Rihab Real Estate Development Company WLL | **0.15** | 0.15 | **102** | (68) | **4,274** | 4,172 |
| Markaz Arabian Fund | **30.60** | 30.69 | **(91)** | 467 | **3,643** | 3,746 |
| Markaz Gulf Real Estate Fund | **51.55** | - | **-** | - | **10,213** | - |
| Individually immaterial subsidiaries with non-controlling interests | | | **25** | 477 | **7,286** | 6,027 |
| | | | **(676)** | (15) | **34,568** | 23,803 |

KD 177 thousand was paid as dividend to the NCI during the year (31 December 2019: KD713 thousand).

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

| | **31 Dec. 2020** | | | | | 31 Dec. 2019 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Arab Gulf Real Estate KD '000** | **Bay View Real Estate KD '000** | **Al Rihab Real Estate KD '000** | **Markaz Arabian Fund KD '000** | **Markaz Gulf Real Estate Fund KD '000** | Arab Gulf Real Estate KD '000 | Bay View Real Estate KD '000 | Al Rihab Real Estate KD '000 | Markaz Arabian Fund KD '000 | Markaz Gulf Real Estate Fund KD '000 |
| Non-current assets | **14,394** | **15,559** | **9,620** | **-** | **19,994** | 16,294 | 16,814 | 9,792 | - | - |
| Current assets | **1,483** | **478** | **728** | **11,966** | **957** | 420 | 407 | 355 | 12,264 | - |
| **Total assets** | **15,877** | **16,037** | **10,348** | **11,966** | **20,951** | 16,714 | 17,221 | 10,147 | 12,264 | - |
| Liabilities | **(6,361)** | **(8,411)** | **(260)** | **(61)** | **(1,139)** | (7,542) | (8,823) | (378) | (60) | - |
| **Total liabilities** | **(6,361)** | **(8,411)** | **(260)** | **(61)** | **(1,139)** | (7,542) | (8,823) | (378) | (60) | - |
| Equity attributable to the owners of the Parent Company | **5,002** | **2,988** | **5,814** | **8,262** | **9,599** | 4,822 | 2,890 | 5,597 | 8,458 | - |
| Non-controlling interests (including shareholder loans) | **4,514** | **4,638** | **4,274** | **3,643** | **10,213** | 4,350 | 5,508 | 4,172 | 3,746 | - |
| **Total equity** | **9,516** | **7,626** | **10,088** | **11,905** | **19,812** | 9,172 | 8,398 | 9,769 | 12,204 | - |

# Notes to the Consolidated Financial Statements (continued)

## 7. Subsidiary companies (continued)

### 7.2 Subsidiaries with material non-controlling interests (continued)

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

| | 31 Dec. 2020 | | | | 31 Dec. 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Arab Gulf Real Estate KD '000 | Bay View Real Estate KD '000 | Al Rihab Real Estate KD '000 | Markaz Arabian Fund KD '000 | Arab Gulf Real Estate KD '000 | Bay View Real Estate KD '000 | Al Rihab Real Estate KD '000 | Markaz Arabian Fund KD '000 |
| **Revenue** | 1,811 | 611 | 518 | (54) | 155 | 74 | 231 | 1,796 |
| Profit/(loss) for the year attributable to the owners of the Parent Company | 175 | (388) | 137 | (205) | (1,029) | 36 | (92) | 1,053 |
| Profit/(loss) for the year attributable to NCI | 165 | (877) | 102 | (91) | (972) | 81 | (68) | 467 |
| **Profit/(loss) for the year** | 340 | (1,265) | 239 | (296) | (2,001) | 117 | (160) | 1,520 |
| Total other comprehensive income/(loss) | 3 | 5 | 9 | 3 | (6) | 9 | (19) | (2) |
| **Total comprehensive income/(loss) for the year** | 343 | (1,260) | 248 | (293) | (2,007) | 126 | (179) | 1,518 |
| Total comprehensive income/(loss) for the year attributable to the owners of the Parent Company | 177 | (387) | 142 | (203) | (1,032) | 39 | (103) | 1,052 |
| Total comprehensive income/(loss) for the year attributable to NCI | 166 | (873) | 106 | (90) | (975) | 87 | (76) | 466 |
| **Total comprehensive income/(loss) for the year** | 343 | (1,260) | 248 | (293) | (2,007) | 126 | (179) | 1,518 |
| Net cash from/(used in) operating activities | 407 | (183) | 452 | (778) | (276) | 217 | 224 | (251) |
| Net cash from/(used in) investing activities | 978 | (116) | (6) | - | (1,489) | (575) | (58) | 2,093 |
| Net cash (used in)/from financing activities | (390) | 313 | (76) | (14) | 1,971 | 242 | 165 | (1,353) |
| **Net cash inflow/(outflow)** | 995 | (14) | (370) | (792) | 206 | (116) | 331 | 489 |

## 8. Interest income

| | Year ended 31 Dec. 2020 KD '000 | Year ended 31 Dec. 2019 KD '000 |
|---|---|---|
| On financial assets at amortised cost: | | |
| Time deposits | 20 | 38 |
| Loans to customers | 12 | 10 |
| Investments carried at amortised cost | 217 | 652 |
| On financial assets at fair value through profit or loss | 266 | 285 |
| On investments at fair value through OCI | 37 | 37 |
| | 552 | 1,022 |

## 9. Management fees and commission income

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

## 10. (Loss)/gain from financial assets at fair value through profit or loss

| | Year ended 31 Dec. 2020 KD '000 | Year ended 31 Dec.2019 KD '000 |
|---|---|---|
| Change in fair value of financial assets at fair value through profit or loss | **(1,820)** | 8,665 |
| (Loss)/gain on sale of financial assets at fair value through profit or loss | **(257)** | 1,269 |
| | **(2,077)** | 9,934 |

## 11. General and administrative expenses

| | Year ended 31 Dec. 2020 KD '000 | Year ended 31 Dec. 2019 KD '000 |
|---|---|---|
| Staff costs | **4,788** | 7,360 |
| Depreciation and amortisation | **1,628** | 1,319 |
| Other expenses | **3,641** | 3,322 |
| | **10,057** | 12,001 |

## 12. Finance costs

| | Year ended 31 Dec. 2020 KD '000 | Year ended 31 Dec. 2019 KD '000 |
|---|---|---|
| On financial liabilities at amortised cost: | | |
| Bonds issued | **1,172** | 1,278 |
| Bank borrowings | **1,449** | 1,431 |
| Related party borrowing | **8** | 29 |
| Lease Liabilities | **29** | 42 |
| | **2,658** | 2,780 |

## 13. Basic and diluted (loss)/earnings per share attributable to the owners of the Parent Company

Basic and diluted (loss)/earnings per share attributable to the owners of the Parent Company is calculated by dividing the (loss)/profit for the year attributable to the owners of the Parent Company by the weighted average number of shares outstanding and in issue during the year (excluding treasury shares).

| | Year ended 31 Dec. 2020 | Year ended 31 Dec. 2019 |
|---|---|---|
| (Loss)/profit for the year attributable to the owners of the Parent Company (KD '000) | **(1,715)** | 6,957 |
| Weighted average number of shares outstanding and in issue during the year (excluding treasury shares) | **478,201,747** | 478,201,747 |
| Basic and diluted (loss)/earnings per share attributable to the owners of the Parent Company | **(4) Fils** | 15 Fils |

# Notes to the Consolidated Financial Statements (continued)

## 14. Cash and cash equivalents

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

| | **31 Dec. 2020 KD '000** | 31 Dec. 2020 KD '000 |
|---|---|---|
| Cash and bank balances | **9,951** | 4,937 |
| Time deposits | **9,483** | 1,332 |
| | **19,434** | 6,269 |
| Due to banks | **(649)** | - |
| Less: Time deposits maturing after three months | **(60)** | (17) |
| Cash and cash equivalent for the purpose of consolidated statement of cash flows | **18,725** | 6,252 |

The Group's time deposits carry an average effective interest rate of 1.14% (31 December 2019: 1.85%) per annum.

During the year, one of the local subsidiearies of the Group obtained a KD2,000 thousand unsecured overdraft facility from a local bank which carries interest rate at 1.5% to 2.25% above Central Bank of Kuwait discount rate. The total overdraft facilities available to the Group as of 31 December 2020 were KD5,500 thousand (31 December 2019: KD3,500 thousand) out of which the Group has drawn an amount of KD649 thousand as at that date.

## 15. Accounts receivable and other assets

| | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 |
|---|---|---|
| Management fees and commission receivable | **2,306** | 2,084 |
| Prepayments | **583** | 2,686 |
| Interest receivable | **107** | 498 |
| Insurance claim receivable (note 40) | **1,980** | - |
| Other receivables | **1,687** | 2,162 |
| | **6,663** | 7,430 |

The average credit period on management fees and commission receivable is 30-90 days. No interest is charged on outstanding receivables. Receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery.

| Management fees and commission receivable comprise of: | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 |
|---|---|---|
| Neither past due nor impaired | **1,403** | 1,113 |
| Past due but not impaired | **903** | 971 |
| | **2,306** | 2,084 |

| Aging of past due but not impaired balances: | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 |
|---|---|---|
| 0 to 90 days | **370** | 345 |
| 90 to 180 days | **89** | 191 |
| Above 180 days | **444** | 435 |
| | **903** | 971 |

The Group has determined that the ECL allowance for management fees and commission receivable from clients and other receivables that are financial assets is not material.

### 16. Loans to customers

| | 31 Dec. 2020 KD '000 | 31 Dec. 2019 KD '000 |
|---|---|---|
| Personal loans* | 994 | 893 |
| Provision for credit losses | (489) | (488) |
| | 505 | 405 |

*The interest rate on personal loans ranged from 1.50% to 10.00% (31 December 2019: 2.00% to 10.00%) per annum. All loans are denominated in KD or US Dollars.

The maturity profile of loans to customers is as follows:

| | 31 Dec. 2020 KD '000 | 31 Dec. 2019 KD '000 |
|---|---|---|
| Between one month and six months | 3 | 2 |
| Between six months and one year | 10 | 17 |
| Over one year | 497 | 386 |
| Non-performing loans | 484 | 488 |
| | 994 | 893 |

Provision for credit losses is made in accordance with Central Bank of Kuwait requirements. The total non-performing loans which have been fully provided amounts to KD484 thousand (31 December 2019: KD488 thousand). The remaining loans to customers of KD510 thousand are performing and are to staff where their indemnity balances exceed the loans balance outstanding.

### 17. Financial assets at fair value through profit or loss

| | 31 Dec. 2020 KD '000 | 31 Dec. 2019 KD '000 |
|---|---|---|
| Local quoted securities | 3,844 | 3,448 |
| Foreign quoted securities | 18,958 | 18,729 |
| Local managed funds | 38,645 | 50,922 |
| Foreign managed funds | 13,528 | 13,374 |
| Fixed income securities | 5,066 | 6,338 |
| Equity participation | 10,060 | 13,835 |
| | 90,101 | 106,646 |

The interest rates on fixed income securities range from 2.375% to 7.625% (31 December 2019: 2.375% to 7.60%) per annum.

### 18. Assets held for sale

During the previous year, the management of the Group has transferred one of its investment properties with a carrying value of KD7,819 thousand to assets held for sale category, upon meeting the criteria for recognition as non-current assets held for sale, as of 31 December 2019. During the year, this property has been disposed for a consideration of KD10,960 thousand, realising a gain of KD1,066 thousand (Note 22).

# Notes to the Consolidated Financial Statements (continued)

## 19. Financial assets at fair value through other comprehensive income

| | 31 Dec. 2020 KD '000 | 31 Dec. 2019 KD '000 |
|---|---|---|
| Foreign debt instruments | **410** | 418 |
| Foreign equity instruments | **-** | 2,317 |
| | **410** | 2,735 |

The foreign debt instrument is secured by charges over real estate properties and carry interest rate of 7.25% (31 December 2019: 7.25%) per annum.

## 20. Financial assets at amortised cost

These represent investment in sukuk, a debt instrument amounting to KD4,852 thousand (31 December 2019: KD4,918 thousand) carrying profit rate of 2% above Central Bank of Kuwait discount rate (31 December 2019: 2% above Central Bank of Kuwait discount rate) per annum. Also includes investment in foreign debt instruments amounting to KD136 thousand (31 December 2019: KD4,181 thousand) which is secured by charges over real estate properties and carry interest rate of 13% per annum.

## 21. Investment in associate and joint venture

| | 31 Dec. 2020 KD '000 | 31 Dec. 2019 KD '000 |
|---|---|---|
| Investment in associate (refer below) | **1,610** | 1,704 |
| Investment in joint venture (refer below) | **1,805** | 1,890 |
| | **3,415** | 3,594 |

### 21.1 The details of the Group's investment in associate and joint venture are as follows:

| Company name | Investment classification | Principal Activities | Place of incorporation | 31 Dec. 2020 % | 31 Dec. 2019 % |
|---|---|---|---|---|---|
| First Equilease for Equipment and Transportation Company-KSCC (Unquoted) | Investment in associate | Transportation and Renting | Kuwait | **17.24** | 17.24 |
| MZES Gayrimenkul Alim Satim Company (Unquoted) | Investment in joint venture | Real Estate | Turkey | **50** | 50 |

### 21.2 The movement of investment in associate and joint venture during the year are as follows:

| | First Equilease | | MZES | |
|---|---|---|---|---|
| | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 |
| Carrying value at the beginning of the year | **1,704** | 1,821 | **1,890** | 1,830 |
| Additions during the year | **-** | - | **38** | 91 |
| Share of results of associate/joint venture | **(94)** | (116) | **1** | (25) |
| Share of other comprehensive loss | **-** | (1) | **(124)** | (6) |
| | **1,610** | 1,704 | **1,805** | 1,890 |
| Non-current assets | **818** | 1,258 | **3,362** | 3,462 |
| Current assets | **8,958** | 9,165 | **251** | 318 |
| Non-current liabilities | **(78)** | (74) | **-** | - |
| Current liabilities | **(81)** | (207) | **(3)** | - |
| Non-controlling interests | **(277)** | (259) | **-** | - |
| **Equity attributable to the owners of the Parent Company** | **9,340** | 9,883 | **3,610** | 3,780 |

| | First Equilease | | MZES | |
|---|---|---|---|---|
| | **Year ended 31 Dec. 2020 KD '000** | Year ended 31 Dec. 2019 KD '000 | **Year ended 31 Dec. 2020 KD '000** | Year ended 31 Dec. 2019 KD '000 |
| Revenue | **764** | 674 | **-** | - |
| (Loss)/profit for the year | **(545)** | (675) | **2** | (50) |
| Other comprehensive loss for the year | **-** | (6) | **(248)** | (12) |

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

| | First Equilease | | MZES | |
|---|---|---|---|---|
| | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 |
| Net assets of the associate and joint venture | **9,340** | 9,883 | **3,610** | 3,780 |
| Group's ownership interest | **17.24%** | 17.24% | **50%** | 50% |
| Group's share of net assets | **1,610** | 1,704 | **1,805** | 1,890 |
| Carrying amount | **1,610** | 1,704 | **1,805** | 1,890 |

The Group has accounted for its share of results of associate and joint venture using unaudited management accounts as at 31 December 2020.

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

# Notes to the Consolidated Financial Statements (continued)

## 22. Investment properties

The movement in investment properties is as follows:

| 31 December 2020 | Free hold lands KD '000 | Projects under development KD '000 | Lands & buildings KD '000 | Total KD '000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2020 | 3,996 | 1,810 | 50,598 | 56,404 |
| Additions | - | 258 | - | 258 |
| Result of consolidation of SPV (note 7.1.2) | - | 3,812 | - | 3,812 |
| Result of consolidation of fund (note 7.1.3) | - | - | 19,994 | 19,994 |
| Transfers | - | (2,068) | 2,068 | - |
| Disposals | - | - | (1,025) | (1,025) |
| Foreign currency adjustment | 96 | - | (20) | 76 |
| At 31 December 2020 | 4,092 | 3,812 | 71,615 | 79,519 |
| **Accumulated depreciation** | | | | |
| At 1 January 2020 | - | - | (1,148) | (1,148) |
| Charge for the year | - | - | (933) | (933) |
| Impairment | (11) | - | (2,061) | (2,072) |
| Relating to disposals | - | - | 35 | 35 |
| At 31 December 2020 | (11) | - | (4,107) | (4,118) |
| **Net book value** | | | | |
| **At 31 December 2020** | 4,081 | 3,812 | 67,508 | 75,401 |

| 31 December 2019 | Free hold lands KD '000 | Projects under development KD '000 | Lands & buildings KD '000 | Total KD '000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2019 | 12,417 | 25,063 | 19,850 | 57,330 |
| Additions | - | 9,504 | - | 9,504 |
| Transfers | (7,499) | (32,749) | 40,248 | - |
| Disposals | (1,051) | (8) | (444) | (1,503) |
| Transferred to assets held for sale (note 18) | - | - | (7,819) | (7,819) |
| Reversal of impairment/(impairment) | 133 | - | (1,198) | (1,065) |
| Foreign currency adjustment | (4) | - | (39) | (43) |
| At 31 December 2019 | 3,996 | 1,810 | 50,598 | 56,404 |
| **Accumulated depreciation** | | | | |
| At 1 January 2019 | - | - | (500) | (500) |
| Charge for the year | - | - | (675) | (675) |
| Relating to disposals | - | - | 27 | 27 |
| At 31 December 2019 | - | - | (1,148) | (1,148) |
| **Net book value** | | | | |
| **At 31 December 2019** | 3,996 | 1,810 | 49,450 | 55,256 |

At 31 December 2020, the fair value of the investment properties is KD82,455 thousand (31 December 2019: KD61,670 thousand). Investment properties were revalued by independent evaluators using number of assumptions, including estimated rental revenues, capitalization yields, historical transactions, market knowledge, occupancy rates and cost of construction. The fair value is classified under level 2. In estimating the fair value of investment properties, the highest and best use as their current use. There has been no change to the valuation technique during the year.

During the year, the Group recognised net impairment losses of KD2,072 thousand (31 December 2019: KD1,065thousand) in respect of certain investment properties.

During the year, no finance costs (31 December 2019: KD352 thousand) has been capitalised to investment properties under development.

During the year, the Group sold certain investment properties in GCC for aggregate sale consideration of KD1,182 thousand and realised a gain of KD192 thousand.

The rental income earned from the investment properties amounts to KD3,299 thousand (31 December 2019: KD1,486 thousand) and related direct operating expenses incurred amounts to KD872 thousand (31 December 2019: KD521 thousand).

Investment properties with a carrying value of KD23,158 thousand (31 December 2019: KD20,849 thousand) are secured against bank borrowings. (Note 24)

The Groups investment properties are located as below:

| | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 |
|---|---|---|
| North America | **3,812** | - |
| GCC | **71,589** | 55,256 |
| | **75,401** | 55,256 |

## 23. Accounts payable and other liabilities

| | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 |
|---|---|---|
| Accrued expenses | **2,776** | 3,973 |
| Post-employment benefits | **3,495** | 3,522 |
| Dividend payable | **446** | 385 |
| Payable to contractors | **606** | 2,395 |
| Lease liability | **353** | 624 |
| Other liabilities | **2,623** | 4,408 |
| | **10,299** | 15,307 |

# Notes to the Consolidated Financial Statements (continued)

## 24. Bank borrowings

This represents following bank borrowings:

a. Unsecured loan facilities amounting to KD14,000 thousand obtained from local commercial banks carry interest rate ranging from 2% to 2.5% above Central Bank of Kuwait discount rate (31 December 2019: KD6,000 thousand). An amount of KD6,000 thousand loan facility was converted to USD loan facility amounting to USD18,500 thousand during the year (refer note 24 d). The remaining amount of this facility has been fully repaid as of 31 December 2020.

b. Three unsecured Murabaha facility amounting to KD10,000 thousand obtained from local Islamic banks with a profit rate of 1.5% to 2% above Central Bank of Kuwait discount rate. The amount of borrowing under these Murabaha has been fully repaid as of 31 December 2020 (31 December 2019: KD6,905 thousand). Also, one unsecured Murabaha facility of USD20,000 thousand equivalent to KD6,065 thousand was obtained from a local Islamic bank with a profit rate of 2% above 6 months LIBOR. This facility has been fully settled during the year (31 December 2019: USD 19,982 thousand equivalent KD6,056 thousand).

c. Two secured loan facilities were obtained from a foreign commercial bank amounting to AED142,350 thousand equivalent to KD11,754 thousand and carry an interest rate of 2.75% above 3 month EIBOR. Outstanding balance of these loan facilities as at 31 December 2020 amounted to AED126,448 thousand equivalents to KD10,442 thousand (31 December 2019: AED123,661 thousand equivalents to KD10,204 thousand). These facilities are secured by certain foreign investment properties.

d. An unsecured loan facility of KD6,000 thousand was converted into USD18,500 thousand facility equivalent to KD5,610 thousand by a local commercial bank carrying interest rate of 2.75% above 3 months LIBOR. As of 31 December 2020, this facility was fully availed (31 December 2019: Nil) (refer note 24 a). The purpose of this facility is to finance the real estate activities in certain foreign countries.

e. A revolving credit facility amounting to USD 10 million was approved from a foreign commercial bank which carries an interest rate of 1.15% per annum. No amount has been availed from this facility as of 31 December 2020 (31 December 2019: USD275 thousand equivalent KD83 thousand).

f. An unsecured loan facility of USD16,585 thousand equivalent to KD5,029 thousand obtained from a local commercial bank carrying interest rate of 2.75% above 3 months LIBOR repayable on every six months and mature on 31 October 2023. As of 31 December 2020, this facility was fully availed (31 December 2019: USD16,585 thousand equivalents to KD5,026 thousand). The purpose of this facility is to finance the real estate activities in certain foreign countries.

g. An unsecured loan facility of EUR2,125 thousand equivalent to KD760 thousand obtained from a related party (represented by a non-controlling interest of a foreign subsidiary) carrying an interest rate of 3% was settled during the year. (31 December 2019: EUR1,903 thousand equivalent KD646 thousand).

h. A secured loan facility (development facility) of EUR21,319 thousand equivalent to KD7,621 thousand obtained by a foreign subsidiary from a foreign commercial bank carrying an interest rate of 2.6% above 3 months EURIBOR was settled during the year. (31 December 2019: EUR18,702 thousand equivalent KD6,350 thousand).

i. A secured loan facility of PLN22,000 thousand equivalent to KD1,713 thousand obtained by a foreign subsidiary from a foreign commercial bank carrying an interest rate of 1.8% above three months WIBOR was settled during the year. (31 December 2019: PLN1,067 thousand equivalent KD362 thousand).

j. A secured loan facility of USD37,161 thousand equivalent KD11,269 thousand obtained by a foreign subsidairy from a foreign commercial bank carrying an interest rate of 2.88% above one month LIBOR. No amount has been availed from this facilty as of 31st December 2020 (31 December 2019: Nil).

**Reconciliation of liabilities arising from financing activities**

| | 31 Dec. 2020<br>KD '000 | 31 Dec. 2019<br>KD '000 |
|---|---|---|
| Opening balance | **41,632** | 22,565 |
| Proceeds from bank borrowings | **5,919** | 25,173 |
| Repayment of bank borrowings | **(26,480)** | (6,106) |
| Effect of change in foreign exchange rates | **10** | - |
| Closing balance | **21,081** | 41,632 |

## 25. Bonds issued

a. 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. On 20 December 2020 the parent Company repurchased an amount of KD4,750 thousand out of these bonds. The outstanding balance as of 31st December 2020 is KD8,800 thousand (31 December 2019: KD13,350 thousand).
- 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. On 20 December 2020 the parent Company repurchased an amount of KD10,900 thousand out of these bonds. The outstanding balance as of 31st December 2020 is KD 550 thousand (31 December 2019: KD11,450 thousand).

b. On 20 December 2020, the Parent Company issued unsecured debenture bonds in the principle amount of KD35,000 thousand as follows:

- KD17,500 thousand with a fixed rate of 4.75% payable quarterly in arrears maturing on 20 December 2025.
- KD17,500 thousand with variable rate of 3%, above Central Bank of Kuwait Discount rate, capped at 5.5%, which is payable quarterly in arrears maturing on 20 December 2025.

## 26. Share capital and share premium

### a. Share capital

| | 31 Dec. 2020<br>KD '000 | 31 Dec. 2019<br>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 |

### b. Share premium

Share premium is not available for distribution.

## 27. Treasury shares

| | 31 Dec. 2020 | 31 Dec. 2019 |
|---|---|---|
| Number of shares | **2,600,0000** | 2,600,000 |
| Percentage of issued shares | **0.54%** | 0.54% |
| Market value (KD '000) | **213** | 273 |
| Cost (KD'000) | **260** | 260 |

Reserves of the Parent Company equivalent to the cost of the treasury shares have been earmarked as non-distributable.

# Notes to the Consolidated Financial Statements (continued)

## 28. Reserves

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

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

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

No transfer to reserves is required in a year in which the Group has incurred a loss or where cumulative losses exist.

## 29. Other components of equity

| | Fair value reserve KD '000 | Foreign currency translation reserve KD '000 | Total KD '000 |
|---|---|---|---|
| **Balance at 1 January 2020** | **(174)** | **371** | **197** |
| Financial assets at fair value through other comprehensive income: | | | |
| Net change in fair value arising during the year | **262** | **-** | **262** |
| Exchange differences arising on translation of foreign operations | **-** | **11** | **11** |
| Share of other comprehensive loss of associate and joint venture | **-** | **(124)** | **(124)** |
| Total other comprehensive income/(loss) | **262** | **(113)** | **149** |
| **Balance at 31 December 2020** | **88** | **258** | **346** |
| | | | |
| **Balance at 1 January 2019** | 79 | 476 | 555 |
| Financial assets at fair value through other comprehensive income: | | | |
| Net change in fair value arising during the year | (253) | - | (253) |
| Exchange differences arising on translation of foreign operations | - | (98) | (98) |
| Share of other comprehensive loss of associate and joint venture | - | (7) | (7) |
| Total other comprehensive loss | (253) | (105) | (358) |
| **Balance at 31 December 2019** | (174) | 371 | 197 |

## 30. Proposed dividends and Annual General Assembly

The Board of Directors of the Parent Company did not propose dividend for the year ended 31 December 2020. This proposal is subject to the approval of the Parent Company's Shareholders at the Annual General Assembly.

The shareholders of the Parent Company at the Annual General Assembly held on 28 April 2020 approved the consolidated financial statements of the Group for the year ended 31 December 2019 and approved a cash dividend of 5 Fils per share amounting to KD2,391 thousand (31 December 2018: 5 Fils per share amounting to KD2,391 thousand) instead of the cash dividend of 10 Fils per share proposed by the Board of Directors at their meeting held on 16 February 2020. Also, Shareholders agreed to reduce director's remuneration from KD175 thousand to KD105 thousand for the year end 31 December 2019.

## 31. Related party transactions

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

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

| | **Year ended 31 Dec. 2020 KD '000** | Year ended 31 Dec. 2019 KD '000 |
|---|---|---|
| **Transactions included in the consolidated statement of profit or loss:** | | |
| Interest income on loans to customers | **4** | 2 |
| Management fees and commission | **5,547** | 5,727 |
| Finance costs (Note 24 g) | **(8)** | (29) |
| **Key management compensation:** | | |
| Salaries and other short-term benefits | **801** | 793 |
| End of service benefits | **141** | 158 |
| Audit committee fees | **15** | 15 |
| Board of Directors' remuneration (refer note 30) | **-** | 245 |
| | **957** | 1,211 |

The annual general assembly of the Shareholders held on 2 April 2019 approved to pay directors' remuneration amounting to KD70 thousand to the board members for the year ended 31 December 2018 and accordingly paid during the year 2019. Also, the Parent Company's management proposed to pay for the year ended 31 December 2019 directors' remuneration amounting to KD175 thousand which was reduced to KD105 thousand by the Shareholders at the annual general assembly held on 28 April 2020.

| | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 |
|---|---|---|
| **Balances included in the consolidated statement of financial position:** | | |
| Loans to customers | **127** | 102 |
| Accounts receivable and other assets | **1,717** | 1,744 |
| Accounts payable and other liabilities | **1,596** | 2,383 |
| Borrowings (Note 24 g) | **-** | 646 |

# Notes to the Consolidated Financial Statements (continued)

### 32. Segmental information

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

The Group's business segments are summarised into Asset Management and Investment Banking.

Asset Management segment includes GCC and MENA investments, International investments, Private equity and Real Estate.

Investment Banking segment includes Corporate finance & advisory, Oil and gas, Treasury, Loans and structured finance and derivatives.

The revenues and profits generated from, and assets and liabilities allocated to, Group's business segments are as follows:

| | Asset Management | | Investment Banking | | Total | |
|---|---|---|---|---|---|---|
| | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 |
| Segment revenue | **10,525** | 21,637 | **2,636** | 1,854 | **13,161** | 23,491 |
| Segment result | **(3,043)** | 7,534 | **652** | (77) | **(2,391)** | 7,457 |
| Provisions for KFAS, NLST, Zakat and Board of Directors' remuneration | **-** | (518) | **-** | 3 | **-** | (515) |
| (Loss)/profit for the year | **(3,043)** | 7,016 | **652** | (74) | **(2,391)** | 6,942 |
| Total assets | **173,115** | 180,398 | **29,058** | 20,539 | **202,173** | 200,937 |
| Total liabilities | **64,576** | 70,175 | **11,803** | 11,764 | **76,379** | 81,939 |
| Interest income | **104** | 509 | **448** | 513 | **552** | 1,022 |
| Finance costs | **(2,270)** | (2,561) | **(388)** | (219) | **(2,658)** | (2,780) |
| Depreciation and amortisation | **(1,211)** | (890) | **(417)** | (429) | **(1,628)** | (1,319) |
| Impairment of investment properties | **(2,072)** | (1,065) | **-** | - | **(2,072)** | (1,065) |
| Purchase of equipment | **(57)** | (345) | **(210)** | (233) | **(267)** | (578) |
| Addition to investment properties | **(258)** | (9,152) | **-** | - | **(258)** | (9,152) |

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

For the purposes of monitoring segment performance and allocating resources between segments:

- There are no assets used jointly by any reportable segment.
- There are no liabilities for which any segment is jointly liable

## 33. Fiduciary accounts

The Group manages portfolios on behalf of others, mutual funds and maintains cash balances and securities in fiduciary accounts, which are not reflected in the consolidated statement of financial position. Assets under management at 31 December 2020 amounted to KD978,666 thousand (31 December 2019: KD1,142,838 thousand). The Group earned management fee of KD7,519 thousand (31 December 2019: KD8,114 thousand) from the asset management activities.

## 34. Commitments

| | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 |
|---|---|---|
| Commitments for purchase of investments | **2,073** | 2,243 |
| Commitments for investment properties | **14,600** | 83 |
| Letter of guarantee | **-** | 1 |
| | **16,673** | 2,327 |

## 35. Forward foreign exchange contracts

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

| | **31 Dec. 2020** | | 31 Dec. 2019 | |
|---|---|---|---|---|
| | **Contractual amounts KD '000** | **Assets KD '000** | Contractual amounts KD '000 | Assets KD '000 |
| Forward foreign exchange contracts | **10,665** | **101** | 10,625 | 39 |

## 36. Risk management objectives and policies

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

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

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

### 36.1 Market risk

#### a. Foreign currency

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

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

# Notes to the Consolidated Financial Statements (continued)

## 36. Risk management objectives and policies (continued)
### 36.1 Market risk (continued)
a. Foreign currency (continued)

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

| | 31 Dec. 2020 KD '000 | 31 Dec. 2019 KD '000 |
|---|---|---|
| US Dollar | **40,855** | 38,417 |
| Saudi Riyals | **4,811** | 9,066 |
| Euro | **5,172** | 6,739 |
| Others | **1,904** | 4,349 |

Foreign currency sensitivity is determined based on 2% (31 December 2019: 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 (loss)/profit for the year:

| | 31 Dec. 2020 | | 31 Dec. 2019 | |
|---|---|---|---|---|
| | + 2% KD '000 | - 2% KD '000 | + 2% KD '000 | - 2% KD '000 |
| (Loss)/profit for the year | **1,045** | **(1,045)** | 1,171 | (1,171) |

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

b. Interest and profit rate risk

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

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

c. Equity price risk

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

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

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

| | (Loss)/profit for the year | |
|---|---|---|
| | **31 Dec. 2020** | 31 Dec. 2019 |
| | **KD '000** | KD '000 |
| Financials assets at fair value through profit or loss | **±456** | ±444 |

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

### 36.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group credit policy and exposure to credit risk is monitored on an on-going 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. 2020** | 31 Dec. 2019 |
|---|---|---|
| | **KD '000** | KD '000 |
| Bank balances | **9,949** | 4,935 |
| Time deposits | **9,483** | 1,332 |
| Accounts receivable and other assets (excluding prepayment and advance payments) | **6,080** | 4,690 |
| Loans to customers | **505** | 405 |
| Financial assets at fair value through other comprehensive income | **410** | 418 |
| Financial assets at amortised cost | **4,988** | 9,099 |
| | **31,415** | 20,879 |

Except for certain receivables and loans to customers referred to in note 15 and 16, none of the above financial assets are past due or impaired. The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. The Group's management considers that all the above financial assets that are neither past due nor impaired for each of the reporting dates under review are of good credit quality.

In respect of receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty. Further details in relation to credit risk of receivables and loans to customers are disclosed in note 15 and 16 respectively. The Group's financial assets measured at amortised cost comprised of mortgaged note receivables and sukuk which are considered to be low credit risk investments. It is the Group's policy to measure such instruments on a 12-month ECL basis. However, the ECL provision on these balances are not material to the Group's consolidated financial statements. The credit risk for bank balances and time deposits is considered negligible, since the counterparties are reputable financial institutions with high credit quality and no history of default. Based on management assessment, the expected credit loss impact arising from such financial assets are insignificant to the Group as the risk of default has not increased significantly.

Information on other significant concentrations of credit risk is set out in note 36.3.

# Notes to the Consolidated Financial Statements (continued)

## 36. Risk management objectives and policies (continued)

### 36.3 Concentration of assets

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

| | 31 Dec. 2020 KD '000 | 31 Dec. 2019 KD '000 |
|---|---|---|
| Kuwait | **24,207** | 12,456 |
| North America | **4,822** | 6,641 |
| GCC | **3,517** | 3,280 |
| Europe | **3,848** | 4,807 |
| Others | **87** | 33 |
| | **36,481** | 27,217 |

### 36.4 Liquidity risk

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

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

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

| | Upto 1 month KD '000 | Upto 1-3 months KD '000 | 3-12 months KD '000 | Above 1 year KD '000 | Total KD '000 | Weighted average effective interest/profit rate % |
|---|---|---|---|---|---|---|
| **31 December 2020** | | | | | | |
| **Financial liabilities** | | | | | | |
| Due to banks | **649** | **-** | **-** | **-** | **649** | |
| Accounts payable and other liabilities | **2,472** | **2,085** | **2,181** | **66** | **6,804** | |
| Bank borrowings | **205** | **218** | **1,056** | **22,733** | **24,212** | **2.98% to 3.2%** |
| Bonds issued | **-** | **521** | **10,911** | **41,475** | **52,907** | **4.25% to 5%** |
| | **3,326** | **2,824** | **14,148** | **64,274** | **84,572** | |
| **31 December 2019** | | | | | | |
| **Financial liabilities** | | | | | | |
| Accounts payable and other liabilities | 3,925 | 2,760 | 3,509 | 1,591 | 11,785 | |
| Bank borrowings | 2,215 | 6,930 | 6,509 | 31,264 | 46,918 | 2.91% to 5.80% |
| Bonds issued | - | 313 | 938 | 27,500 | 28,751 | 5% |
| | 6,140 | 10,003 | 10,956 | 60,355 | 87,454 | |

Maturity profile of assets and liabilities at 31 December 2020:

| | Within 1 year KD '000 | Over 1 year KD '000 | Total KD '000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and bank balances | 9,951 | - | 9,951 |
| Time deposits | 9,483 | - | 9,483 |
| Accounts receivable and other assets | 6,636 | 27 | 6,663 |
| Loans to customers | 13 | 492 | 505 |
| Financial assets at fair value through profit or loss | 90,101 | - | 90,101 |
| Financial assets at fair value through other comprehensive income | - | 410 | 410 |
| Financial assets at amortised cost | - | 4,988 | 4,988 |
| Investment in associate and joint venture | - | 3,415 | 3,415 |
| Investment properties | - | 75,401 | 75,401 |
| Right of use assets | - | 328 | 328 |
| Equipment | - | 928 | 928 |
| | 116,184 | 85,989 | 202,173 |
| **Liabilities** | | | |
| Due to banks | 649 | - | 649 |
| Accounts payable and other liabilities | 6,739 | 3,560 | 10,299 |
| Bank borrowings | 850 | 20,231 | 21,081 |
| Bonds issued | 9,350 | 35,000 | 44,350 |
| | 17,588 | 58,791 | 76,379 |

Maturity profile of assets and liabilities at 31 December 2019:

| | Within 1 year KD '000 | Over 1 year KD '000 | Total KD '000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and bank balances | 4,937 | - | 4,937 |
| Time deposits | 1,332 | - | 1,332 |
| Accounts receivable and other assets | 7,228 | 202 | 7,430 |
| Loans to customers | 19 | 386 | 405 |
| Financial assets at fair value through profit or loss | 106,646 | - | 106,646 |
| Assets held for sale | 7,819 | - | 7,819 |
| Financial assets at fair value through other comprehensive income | - | 2,735 | 2,735 |
| Financial assets at amortised cost | - | 9,099 | 9,099 |
| Investment in associate and joint venture | - | 3,594 | 3,594 |
| Investment properties | - | 55,256 | 55,256 |
| Right of use assets | - | 600 | 600 |
| Equipment | - | 1,084 | 1,084 |
| | 127,981 | 72,956 | 200,937 |
| **Liabilities** | | | |
| Accounts payable and other liabilities | 10,194 | 5,113 | 15,307 |
| Bank borrowings | 14,416 | 27,216 | 41,632 |
| Bonds issued | - | 25,000 | 25,000 |
| | 24,610 | 57,329 | 81,939 |

# Notes to the Consolidated Financial Statements (continued)

## 36. Risk management objectives and policies (continued)

### 36.5 Structured entities (Special Purpose Vehicle)

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

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

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

These investments are included in financial assets at fair value through profit or loss in the statement of consolidated financial position.

| **Funding Strategy** | **Type of activities** | **Number of SPVs** | **Fair value of Group's investment in SPVs KD '000** | **% of Net asset attributable to Group** |
|---|---|---|---|---|
| Equity | Investment in real estate | 11 (31 December 2019: 14) | 6,217 (31 December 2019: 9,739) | 14.93% (31 December 2019: 27.40%) |

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

### 37.1 Categories of financial assets and liabilities

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

| | **31 Dec. 2020 KD '000** | 31 Dec. 2019 KD '000 |
|---|---|---|
| **Financial assets:** | | |
| **Financial assets at amortised cost:** | | |
| Cash and bank balances | **9,951** | 4,937 |
| Time deposits | **9,483** | 1,332 |
| Accounts receivable and other assets (excluding prepayment and advance payments) | **5,979** | 4,651 |
| Loans to customers | **505** | 405 |
| Investments carried at amortised cost | **4,988** | 9,099 |
| **Financial assets at fair value through profit or loss** | **90,101** | 106,646 |
| **Financial assets at fair value through other comprehensive income** | **410** | 2,735 |
| **Forward foreign exchange contracts** | | |
| At fair value (included under accounts receivables and other assets) | **101** | 39 |
| **Total financial assets** | **121,518** | 129,844 |

| | 31 Dec. 2020<br>KD '000 | 31 Dec. 2019<br>KD '000 |
|---|---|---|
| **Financial liabilities:** | | |
| **Financial liabilities at amortised cost:** | | |
| Due to banks | 649 | - |
| Accounts payable and other liabilities | 6,804 | 11,785 |
| Bank borrowings | 21,081 | 41,632 |
| Bonds issued | 44,350 | 25,000 |
| **Total financial liabilities** | 72,884 | 78,417 |

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

### 37.2 Fair value hierarchy

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

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

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

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

| | KD '000 | | | |
|---|---|---|---|---|
| **31 December 2020** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets at fair value through profit or loss** | | | | |
| Quoted securities | 22,802 | - | - | 22,802 |
| Managed funds | - | 52,173 | - | 52,173 |
| Equity participations | - | - | 10,060 | 10,060 |
| Fixed income securities | 4,266 | - | 800 | 5,066 |
| | 27,068 | 52,173 | 10,860 | 90,101 |
| **Derivative** | | | | |
| Forward foreign currency contracts held for trading | - | 101 | - | 101 |
| **Financial assets at fair value through OCI** | | | | |
| Debt instruments | - | - | 410 | 410 |
| | 27,068 | 52,274 | 11,270 | 90,612 |

# Notes to the Consolidated Financial Statements (continued)

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

| | KD '000 | | | |
|---|---|---|---|---|
| **31 December 2019** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets at fair value through profit or loss** | | | | |
| Quoted securities | 22,177 | - | - | 22,177 |
| Managed funds | - | 64,296 | - | 64,296 |
| Equity participations | - | - | 13,835 | 13,835 |
| Fixed income securities | 5,438 | - | 900 | 6,338 |
| | 27,615 | 64,296 | 14,735 | 106,646 |
| **Derivative** | | | | |
| Forward foreign currency contracts held for trading | - | 39 | - | 39 |
| **Financial assets at fair value through OCI** | | | | |
| Debt instruments | - | - | 418 | 418 |
| Equity participation | - | - | 2,317 | 2,317 |
| | 27,615 | 64,335 | 17,470 | 109,420 |

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

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

#### 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. Investments 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).

| Financial assets | Fair value as at 31 Dec. 2020 KD '000 | Fair value as at 31 Dec. 2019 KD '000 | Fair value hierarchy | Valuation technique(s) and key input (s) | Significant unobservable input (s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| **Financial assets at FVTPL:** | | | | | | |
| Quoted securities | **22,802** | 22,177 | 1 | Quoted bid prices | N/A | N/A |
| Managed funds | **52,173** | 64,296 | 2 | NAV Basis | Net Assets Value | Net Assets Value |
| Fixed income securities | **4,266** | 5,438 | 1 | Quoted bid prices | N/A | N/A |
| Fixed income securities | **800** | 900 | 3 | Discounted cash flows | Cash flow estimate and discount rate | Higher estimated cash flows and lower discount rate, results in higher fair value |
| Equity participations | **10,060** | 13,835 | 3 | Adjusted NAV Basis | Discount for lack of marketability | Lower discount rate, results in higher fair value |
| **Financial assets at FVOCI:** | | | | | | |
| Debt instruments | **410** | 418 | 3 | Discounted cash flows | Cash flow estimate and discount rate | Higher estimated cash flows and lower discount rate, results in higher fair value |
| Equity participation | **-** | 2,317 | 3 | Adjusted NAV Basis | Discount for lack of marketability | Lower discount rate, results in higher fair value |
| **Derivative:** | | | | | | |
| Forward foreign currency contracts held for trading | **101** | 39 | 2 | Foreign exchange rate/ DCF method | N/A | N/A |

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

# Notes to the Consolidated Financial Statements (continued)

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

### 37.2 Fair value hierarchy (continued)

#### Level 3 fair value measurements

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

| | 31 Dec. 2020 KD '000 | 31 Dec. 2019 KD '000 |
|---|---|---|
| Opening balance | **17,470** | 12,540 |
| Net (redemption)/purchase | **(7,109)** | 5,929 |
| Net change in fair value | **909** | (999) |
| Closing balance | **11,270** | 17,470 |

## 38. Operational risk

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

## 39. Capital management objectives

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

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

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

The capital structure of the Group consists of the following:

| | 31 Dec. 2020 KD '000 | 31 Dec. 2019 KD '000 |
|---|---|---|
| Bank borrowings and bonds issued | **65,431** | 66,632 |
| Less: Cash and cash equivalents | **(18,725)** | (6,252) |
| Net debt | **46,706** | 60,380 |
| Total equity | **125,794** | 118,998 |

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. 2020** | 31 Dec. 2019 |
|---|---|---|
| | **%** | % |
| Net debt to equity ratio | **37.1** | 50.7 |

## 40. Fire incident

During the second quarter, one of the structured entities (which was consolidated during the current period – refer note 7.1.2) reported a fire incident at a development project in the USA which has damaged 2/3rd of the project buildings. The project is covered by an insurance policy against damage due to fire. The loss due to fire incident has been fully assessed and the Group's management believes that the insurance claim will cover for the losses incurred on this project as the insurer has already accepted the claim and paid substantial part of the insurance claim for the reconstruction of the damaged site. Accordingly, this incident will not materially impact the Group's consolidated financial statements.

## 41. Effect of COVID-19

The outbreak of Coronavirus ("COVID-19") pandemic and related global responses have caused material disruptions to businesses around the world, leading to an economic slowdown. Global and local equity markets have experienced significant volatility and weakness. While governments and central banks have reacted with various financial packages and reliefs designed to stabilise economic conditions, the duration and extent of the impact of the COVID-19 outbreak, as well as the effectiveness of government and central bank responses, remains unclear at this time. Management of the Group is actively monitoring the effects COVID-19 may have on its business operations.

In light of COVID-19, the Group has considered whether any adjustments and changes in judgments, estimates and risk management are required to be considered and reported in the consolidated financial statements. Below are the key assumptions about the future and other key sources of estimation that may have a significant risk of causing material adjustments to the consolidated financial statements:

### Impairment of non-financial assets

The Group has analyzed impairment indicators arising and significant uncertainties around its investment properties, especially arising as a result of COVID-19.

Accordingly, the Group has performed an impairment assessment of its investment properties, considering the negative impact of COVID-19 on market value of properties and concluded that recoverable amounts of certain properties are lower than their carrying values as at the end of the year. As a result, during the year the Group has identified an impairment loss amounting to KD2,072 thousand in respect of these properties in these consolidated financial statements.

# Notes to the Consolidated Financial Statements (continued)

### 41. Effect of COVID-19 (continued)

#### Fair valuation of financial assets

The uncertainties caused by COVID-19 have required the Group to reassess the inputs and assumptions used for the determination of fair value of financial assets at FVTPL.

The Group has determined the fair value of its equity securities, managed funds, fixed income securities and equity participations in real estate properties based on most recent market information relating to the respective investments and recognized resulting unrealized loss in these consolidated financial statements.

#### Going concern

The Group has performed an assessment of whether it is a going concern in the light of current economic conditions and all available information about future risks and uncertainties. The projections have been prepared covering the Group's future performance, capital and liquidity. The impact of COVID-19 may continue to evolve, but at the present time the projections show that the Group has ample resources to continue in operational existence and its going concern position remains largely unaffected. As a result, these consolidated financial statements has been appropriately prepared on a going concern basis.

Further, management is aware that a continued and persistent disruption could negatively impact the consolidated financial position, performance and cash flows of the Group in the future. Management continues to closely monitor the market trends, its supply-chain, industry reports and cash flows to minimise any negative impact on the Group.