A Study for Revitalizing and Developing the Investment Sector

Facilitated by:
Union of Investment Companies (UIC)

Funded by:
Kuwait Foundation for the Advancement of Sciences (KFAS)

July 2016

HIS HIGHNESS
SHEIKH SABAH ALAHMEND ALJABER ALSABAH
THE AMIR OF THE STATE OF KUWAIT

HIS HIGHNESS
SHEIKH NAWWAF ALAHMEND ALJABER ALSABAH
THE CROWN PRINCE OF THE STATE OF KUWAIT

HIS HIGHNESS
SHEIKH JABER ALMUBARAK ALHAMAD ALSABAH
THE PRIME MINISTER OF THE STATE OF KUWAIT

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The Kuwait Foundation for the Advancement of Sciences (KFAS)

The Kuwait Foundation for the Advancement of Sciences (KFAS) is a private non-profit organization dedicated to supporting the progress and advancement of science and technology. Established by an Amiri decree in 1976, H.H. the Amir of Kuwait Sheikh Sabah Al-Ahmed Al-Sabah continues to chair the Foundation's Board of Directors, with private sector companies contributing 1% of their annual net profits to the Foundation.

The main objective of KFAS is to stimulate creative initiatives and build a solid scientific and technological base while at the same time creating an environment that encourages innovation. Current projects include widening the public awareness of science, creating an environment in which innovation can flourish, and enhancing private and public sector research capacities. KFAS also works with talented and gifted individuals and gives them the financial and practical support they need to turn their ideas into reality.

Thanks & Appreciation

On the occasion of the publication of this study, the Union of Investment Companies expresses its sincere thanks and appreciation for the continuous efforts and endeavors of the Kuwait Foundation for the Advancement of Sciences (KFAS) to support the development and advancement of various fields of research and training in the State of Kuwait and in accordance with the directives and visions of His Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah - The Chairman of KFAS - in the endeavor to transform the State of Kuwait into a financial and commercial center. Within its belief in the importance of the investment sector in the State of Kuwait to achieve this vision, KFAS accepted to sponsor this Study through Union of investment companies which is in charge of this important sector.

Also, we gratefully thank Dr. Adnan Shehab Al-Din, Director General of the Foundation, for his continuous efforts in activating the vital role of KFAS in supporting the creative side of the various sectors, including the investment sector, which is supported by this study, reaching to the benefit of the national economy to achieve more development to our dear country Kuwait.

Union of Investment Companies (UIC)

During the last two decades, the investment companies have been an immense impetus within the local and regional economy. They have provided financing and investment services, asset management, in addition to the financial investment services, such as mergers & acquisitions and more. Furthermore, they have rapidly extended their business operations in the regional and international markets, including the provision of financial services in accordance with the provisions of the Islamic regulations.

The investment sector is considered the second largest sector in the Kuwait Stock Exchange after the banking sector in terms of the size of its capital, as it is the third largest sector after oil and manufacturing industries as well as banks in terms of contribution to GDP.

Given the importance of this sector emerged the idea of establishing the Union of Investment companies (UIC) in January 2005, which currently holds 38 investment and financial services companies within its membership.

Mission:

Adapting the appropriate atmosphere for developing the efficiency of the investment sector and financial services in consistency with developments in the international markets, including legislation and autonomous regulations to serve national economy.

Objectives of Union of Investment Companies (UIC):

- To promote and develop investment sectors using the best material capabilities and the available human expertise of the members.
- To prepare technical and specialist studies and researches in the development and promotion of the investment sector.
- To consult and exchange opinion with all institutions of the State to achieve the interests of the members and national economy. Further to cooperate with different government and private authorities concerned with investment sector related to the union's activities and to remove the impediments that may face the members.
- To give opinion on the draft laws, proposals, rules, regulations or orders pertaining to different shapes of investment or economics, either directly or indirectly as well as those relating to regulation of the investment or the licensed companies, supervision and control of the same.
- To promote the professional and cultural level of the members, and to setup and organize the social activities of the members of the Union.
- To publish advertising literature to promote investment and commercial culture in the society and among members of the Union.
- To hold specialized training courses in financial and investment fields and in the activities of the companies' members of the Union and the economical and other related entities. For the purpose of developing and rehabilitation of its employees.

Foreword

This report "A Study for Revitalizing and Developing the Investment Sector" has been prepared by RSM Albazie Consulting ("RSM") for the Union of Investment Companies ("UIC") in line with their RFP S.N. 85/2015 dt. 13th April 2015 and RSM's engagement letter dated 1st July 2015. This report has been funded by Kuwait Foundation for the Advancement of Sciences (KFAS) whose main objective is to stimulate creative initiatives and promote the construction of a solid scientific and technological base while at the same time creating an environment that encourages innovation. The UIC aimed to carry out a diagnostic and analytical study on the Investment Sector to complement its objectives, plans and programs to support the investment sector.

Union of Investment Companies (UIC) worked on translating one of its main tasks towards the investment sector through this extensive study which lasted for nearly a year. The main objective of this study is to diagnose the status of the investment sector since the outbreak of the financial crisis in 2008, and provide the appropriate solutions to help in revitalizing this important sector. UIC hopes that this study will be one of the factors that contributes to pushing the wheel of the investment sector.

UIC has chosen RSM Albazie & Co. from different consulting companies that introduced their proposals to conduct this study.

UIC formed a committee to steer the study, consisting of:

- Prof. Ramadan Ali AlSharrah - Union of Investment Companies (UIC) (Head of the Committee)
- Ms. Fadwa Adel Darwish - Union of Investment Companies(UIC) (Member and Rapporteur)
- Mr. Faisal Turki AlMatrouk - Kuwait Foundation for the Advancement of Science (KFAS) (Member)
- Dr. Turki al-Shammari - Professor of Finance - Faculty of Administrative Sciences - Kuwait University (External Member)
- Mr. Ziad Al-Qaisi - AlQaisi & AlNaqeeb Consulting Company (External member)

The study has been conducted based on a work plan that is covered under the following sections in this report

Book 1 – Current Status Analysis

This is addressed across 3 sections a) Macroeconomic Analysis, b) Microeconomic Analysis and c) Crisis

<u>Macroeconomic analysis</u>

This section covers key aspects of the economy including demography changes, population growth and GDP among others. It includes a SWOT analysis and an overall view of the importance of the investment sector with an insight into conventional investment companies and Islamic investment sector including size, investment composition, assets under management, liabilities and performance. This section also includes an analysis of the foreign direct investment (FDI) in Kuwait as compared to the GCC countries along with a study of Kuwait's new FDI Law (Law No. 116/2013).

This is followed by a study on the need for a capital market and requirements to develop the same. A section on key controls, reforms required and expected results of the same has also been included. Finally the advantages of moving from a frontier to an emerging market have also been added.

Microeconomic analysis

The study was conducted to cover all investment companies, there unfortunately exists no database to access the same when it comes to unlisted companies. Request to the Central Bank of Kuwait for available data was declined, following which RSM was directed to the CMA. There was no response from the CMA as well for the same, indicating the lack of a centralized database with adequate data on the overall investment sector. Hence the study was based on a detailed analysis of 29 listed investment companies and 7 unlisted companies. The analytical review included the classification of the balance sheet and income statement of these companies into similar buckets, to enable comparison across the same. A summary was provided to view the performance of the currently listed 29 investment companies, based on their performance in FY 2007 to FY 2014, based on key events (before crisis, during crisis, after crisis and currently).

A current overall analysis comparing these companies along the lines of leverage and ROE was carried by plotting the same on a graph to enable an ease of comparison and to identify key outperformers and troubled investment companies. Further a ranking was created based on multiple criteria and presented.

Post this, debt restructuring exercises carried out by the analyzed investment companies were summarized and a few cases studies were presented on the largest debt restructures. Finally, a detailed company analysis was provided for the analyzed companies.

Crises

This section includes a review of crises in Kuwait, international crises and international regulations. This gives a brief overview of the background and impacts of each crisis. Solutions attempted and consequences of the same were also studied. Overall this section includes 10 major crises as well as 2 international regulations. The resonance to Kuwait was also drawn from this section.

Book 2 – Revival Roadmap (Survey)

A survey was used to garner the respondent's view on corporate needs and practices. It focused on identifying aggregations of information, that is, summation of the information on the financial condition of individual financial institutions. As a result, this study benefitted from consultation with the investment sector – the main party that this study is meant to support!

As a part of the survey, meetings/discussions/consultations were conducted with CEOs/CFOs/CCOs and other financial experts in the investment industry to further acquire a deeper understanding of the investment sector. A questionnaire was designed to understand the current situation ("General") and the views of the industry experts on the main reasons and critical repercussions of the 2008 financial crisis ("Tackling crisis").

Book 3 – Benchmarking and Sustainability Frameworks

This section includes conclusions of the study which includes main findings and avenues for development. It includes lessons learned from the various crises and their resonance to Kuwait. It focuses on areas for development such as financial administration, scope for consolidation across current market participants as well as improvements to governance and transparency. Further the role of the government and the private sector has been explored to encourage and allow greater participation by the investment sector in the long term growth of the State of Kuwait.

Contents

Abstract

Kuwait's investment sector witnessed growth in terms of assets and number of investment companies before the financial crisis of 2008. The impact of the financial crisis was severe in Kuwait and the rest of the world leading to a stagnation of growth. Post crisis, Kuwait has not been able to revitalize the investment sector to pre-crisis growth levels.

The purpose of this research report is to examine and analyze the current status of investment companies' financial positions, examine current laws and regulations that concern investment banking activities, and explore the ways and means to facilitate and enhance the enforcement of the stability decree number 2/2009.

The outcome of the analysis is proposing workable solutions for the troubled investment companies including an assessment of the prospects for product development and innovation in the investment sector.

Executive Summary

Kuwait Investment Sector

The importance of the investment sector in Kuwait is unparalleled as they need to play the role of intermediation alongside the banking sector in Kuwait. The banking sector, as deposit taking institution, can help in the development of Kuwait whereas the investment sector, the non-deposit taking institution, must aid in providing funding. Investment companies can secure access to institutional investors and high net worth individual to provide funding for projects that require specialist understanding. This would enhance liquidity which is the key requirement of the current distressed situation in Kuwait.

This sector is a key sector for the development of Kuwait long term development plan "Kuwait Vision 2035" whose, current framework includes extensive use of public-private partnership with the intension to increase private sector participation for the growth of the current economy.

The study on Kuwait's investment sector was conducted to understand the pre-crisis growth in Kuwait followed by the impact of the financial crisis on the investment sector and the condition post crisis. In this context, the investment sector is defined by companies under the CBK supervision, as of Sept 2015 there were 82 companies, which used to supervise all investment companies. However, post the advent of the Capital Market Authority, it is key to note multiple companies rescinded their financing licenses and opted out of CBK supervision. Hence data post FY 2010, could exclude key companies for which data is not available as CMA does not publish such information.

The assets of the investment sector witnessed strong growth between FY 2002 and FY 2007 on account of the liquidity available and increase in the number of investment companies within the market. The assets of the Sharia investment companies witnessed an average growth rate of 45% as compared to the assets of the conventional investment companies which witnessed an average growth of 18% between FY 2002 and FY 2008. In line with assets, the investment sector witnessed high leveraging as total liabilities increased from KD 4.3 Bn in FY 2002 to KD 16.4 Bn in FY 2008 to fund asset growth of the investment companies. The liabilities of the Sharia investment companies witnessed an average growth rate of 45% as compared to the liabilities of the conventional investment companies which witnessed an average growth of 18% between FY 2002 and FY 2008. In FY 2008, the major components for total liabilities is own funds for conventional and Sharia'a compliant investment companies which amounted to KD 2.8 Bn and KD 2.4 Bn representing 31% and 33% respectively.

During FY 2009, assets of the investment sector witnessed a fall of over KD 2 Bn. Lack of confidence in the markets post the crisis led to further decline in asset values. Further, the assets of the conventional investment companies declined at a lower average rate (5%) as compared to the assets of the Sharia'a compliant investment companies (7%) between FY 2009 and Q1 2015. On the other hand, only liabilities witnessed a fall of KD 1.68 Bn in FY 2009 as compared to the previous year. Henceforth, only liabilities have been on a declining trend to amount to KD 5.9 Bn in Q1 2015 as compared to KD 9.6 in FY 2009. Furthermore, the liabilities of the conventional investment companies declined at a lower average rate (5%) as compared to the liabilities of the Sharia'a compliant investment companies (6%) between FY 2009 and Q1 2015. Based on the study, the investment sector has not managed to recover to pre-crisis levels for one reason or the other.

FDI Summary

Historically, Kuwait's inward FDIs have been low as compared to GCC countries namely Saudi Arabia and United Arab Emirates. Amongst the 6 GCC countries, Kuwait accounts for only 9.7% of inward FDI for FY 2013 whereas Saudi Arabia and United Arab Emirates accounted for 41%. For outward movement, GCC represents 95% of the regions outflows with Kuwait topping the GCC countries for outward FDI movement. In FY 2013, amongst total GCC FDI outward movement Kuwait accounted for 31.4%.

In terms of FDI stock/portfolio investments, although Kuwait has witnessed a rise in inward movement since FY 2004 and FY 2014, it still lags behind Saudi Arabia, United Arab Emirates and Qatar. In FY 2013, amongst the GCC countries, Kuwait accounted for only 5.3% of inward FDI stock/portfolio. For outward movement, Kuwait is 2nd amongst the GCC countries only preceded by United Arab Emirates. In FY 2013, Kuwait represented 21.4% of outward FDI stock/portfolio amongst the GCC countries and United Arab Emirates accounting for 34% in FY 2013.

Further, Kuwait has been ranked the lowest in terms of cost of Greenfield projects amongst the GCC countries. Kuwait's outflow of Greenfield was USD 36 Bn which is small as compared to UAE which amounted to USD 216 Bn in FY 2013. In December 2014, Kuwait issued a new FDI law to amend its 2001 Direct Investment Promotion Law.

The new law was drafted as part of the Kuwait Development Plan (KDP), the government's long-term economic vision for the country. In a key development under the new FDI law No. 116 of 2013, the government in December 2014 established Kuwait Direct Investment Promotion Authority (KDIPA) which was created to promote and ease the process for direct investment by foreign investments in the country. Kuwait Direct Investment Promotion Authority (KDIPA) was established to manage applications from foreign investors. FDIs can take one of the three forms according to the new law:

1. Kuwaiti company can have 100% foreign equity; previously, this was limited to 49%.
2. A licensed branch of a foreign company.
3. A related office to conduct market studies and production opportunities without engaging in commercial activities.

KDIPA also has plans to establish a "one-stop shop" unit to streamline registration and licensing procedures for investors, thereby reducing the bureaucracy that has caused concern among investors in the past. This innovation is envisioned to reduce incorporation processes from over six months to 30 days.

Moreover, in April 2015, IBM received KDIPA's first investment license. The license allowed IBM to establish a 100%-owned Kuwaiti company and "to benefit from the incentives and exemptions granted under Law No. 116 of 2013 governing the Promotion of Direct Investment." Moreover, in FY 2015, KDIPA attracted more FDI from Huawei and GE.

Capital Markets

Stronger and deeper capital markets can help mobilize domestic savings and support the efficient allocation of resources, increasing investment and growth. While there has been some progress, capital markets remain illiquid and underdeveloped in most emerging markets and developing economies such as Kuwait. Bank for International Settlements describes four pillars for the development of the capital markets which are all equally important and interrelated. A fragile pillar can weaken the other pillars too. The following are the four pillars for the development of capital markets:

How to Improve Capital Markets		
Pillars	**Steps**	**Resonance to Kuwait**
Sustained Macroeconomic Stability	1. Gradual and sustained adjustment of current spending 2. Improve efficiency of capital expenditure 3. Strengthen non-oil sector growth 4. Ensure the appropriateness of the currency peg	Sustained Macroeconomic Stability will aid Kuwait in accelerated growth
Sound Banking Systems	1. Strong regulation of banks, markets and corporations 2. Enhance macro prudential banking system 3. Ensure sufficient availability of liquidity 4. Development of local corporate bond market	Sound banking systems will improve liquidity and increase transparency resulting in a safer investment environment
Solid Institutional Frameworks	1. Protect rights of investors and creditors by enforcing the law 2. Strengthen judicial system 3. Improve business environment 4. Create incentive framework to increase employment of nationals in the private sector	Solid Institutional Frameworks will help in preventing corruption, and increasing transparency
Adequate Regulation & Supervision	1. Well-designed bankruptcy laws, property rights and competition laws 2. Strengthen regulation and supervision on capital markets 3. Independence of regulation from political pressures 4. Strengthen corporate governance	Stronger regulation and supervision will allow Kuwait to freely act without any political pressures. This will also lead to enhanced transparency on a company level resulting in a better investment environment

In order for Kuwait to develop its capital market some of the recommendations are as follows: Kuwait must encourage secondary trading to enhance liquidity in the financial markets. This will also lead to reduction in systematic and market risk. Further, regulatory approach should shift its focus from a strictly rule-based approach to risk management approach which will result in greater flexibility resulting in the systems vulnerability to shocks.

Debt Market

The development of debt markets would not only contribute to regional financial stability, but also mitigate the adverse impact of financial crises. Past financial crisis and equity market volatility in 2008-2009 stressed the importance of fully active domestic debt markets. The absence of debt market can lead to a bank centric financial system (lack of avenues), borrowing maturity mismatch and excessive dependence on volatile capital inflows. Kuwait's debt market lacks issuance of debt instruments. Kuwait should promote the debt market to attain benefits such as better financial intermediation and efficient financial resource allocation. As per the case study on US debt market, having multiple avenues of financial intermediation can help sustain liquidity in an event of crisis.

Frontier to Emerging

The MSCI Market Classification Framework consists of the following three criteria: economic development, size and liquidity as well as market accessibility. In order to be classified in a given investment universe, a country must meet the requirements of all three criteria as described in the main study.

Being a part of the MSCI emerging market is essential as a considerable amount of stock investors use MSCI indices as a benchmark to track their performances. Often, funds acquire a portfolio composed of the constituents of the MSCI and try to generate additional returns by modifying the asset allocation, for countries such as Kuwait, Saudi Arabia and Bahrain that currently lie in the frontier market section of the MSCI indices, an inclusion in the emerging market sector will force many international funds to invest in these countries in order to replicate the MSCI indices and then earn alpha return on the bench mark by tweaking asset allocations.

MSCI have reclassified Qatar and UAE from "frontier" to "emerging market" status as of June 2014 in light of recent developments in their economies and financial markets. In the case of UAE, MSCI acknowledged the improvements made by Securities and Commodities Authority (Emirati Regulator), the Dubai Financial Market and Abu Dhabi Securities Exchange and indicated majority of market participation have expressed no major concerns over the safekeeping of investors assets. For Qatar, MSCI welcomed the commitment to increasing foreign ownership limits and settlement of trades. Although current foreign ownership limits are still below the limit. Moreover, there has been significant improvement in operational efficiency for Qatar and UAE which has warranted an upgrade to Emerging market. This upgrade is expected to translate into $430 million additional finds for Qatar and $370 million for UAE as per HSBC estimates. Kuwait currently sits in the frontier market and lags behind Qatar and UAE within the GCC countries. Reclassification can be triggered by significant economic reforms that are a precursor to an improved growth outlook leading to significant capital inflows.

Resonance to Kuwait

The study regarding the various crises in Kuwait and across the world provided in-depth knowledge to the background of the crises, the impact, the solution implemented and consequences. Based on this study, key points have been identified for Kuwait as follows:

1- Kuwait's economy should diversify in order to reduce reliance on a single natural resource. Since the oil revenues are low and deficits are predicted for the short term future, curbing expenditure is of paramount importance and it can be done through subsidy reforms and introduction of taxes.
2- Asset price bubble can adversely affect economies and can result in a state of consistent deflation as was the case for Japan. Kuwait requires safety measures to be in place in case of a sharp decline in real estate prices as it could adversely affect the economy and the banking sector given numerous collaterals are based on real estate values.
3- Kuwait should develop sound bankruptcy laws and reinforce regulations to enable closure of insolvent financial institutions and orderly restructuring of distressed firms.

4- Kuwait' stock exchange should be vigilant and thread carefully to halt speculative stock price increases as it experienced in the 1982 Al Manakh crash which was also resonated in the dot-com crash. Kuwait should improve its regulatory supervision on the stock exchange and other related governmental agencies.

5- Kuwait should take a cue from United States to have safety measures in place to help it devise and swiftly implement emergency programs such as Troubled Asset Relief Program (TARP) and American Recovery and Reinvestment Act (ARRA) in an event of another crisis.

Role of the Government

During the 2008 sub-prime crisis, the US government bailed-out firms which were all dangerously interconnected with the rest of the global financial system at a time when markets had lost confidence in their housing-related assets. While the government bailed our Bear Stearns and AIG, the government did not bail out Lehman Brothers.

According to Section (13) (3) of the Federal Reserve Act, "*emergency lending program or facility is for the purpose of providing liquidity to the financial system, and not to aid a failing financial company, and that the security for emergency loans is sufficient to protect taxpayers from losses and that any such program is terminated in a timely and orderly fashion".* This implies the federal reserve can provide aid for the purpose of providing liquidity and not to aid a failing financial company.

In the case of Bear Stearns, the Federal reserve's loans facilitated the acquisition of Bear Stearns by JP Morgan amounting to $29 Bn. The collateral of Bear Stearns assets thought to be worth $30 Bn. The crucial problem faced by Bear Stearns was that of liquidity and the collateral for loan was sufficient to cover its losses. Further, according to the deal, JP Morgan would bear the burden of the fall in value of the collateral up to $1 Bn. Hence bailing out Bear Stearns was deemed appropriate as the loans appeared recoverable and the loan amount was covered by the collateral.

In the case of AIG, Federal loans that was used to bail-out AIG was collateralized against entire assets of AIG. The Federal Reserve believed the firm's problems were isolated in its financial products and not AIG's insurance business which the Fed believed remained going concern which in turn meant AIG had sufficient collateral to borrow from the Fed at low risk to taxpayers. Hence AIG's bail out was deemed appropriate as the problem persisted only in certain sections of the business and the collateral was sufficient to cover the loans.

In case of Lehman Brothers, it was entirely different as the problem was one of solvency rather than liquidity. Trading partners of Lehman Brothers started pulling out and their questionable capital position and access to cash made them more of a liability had the US Fed lent money to help resuscitate its position. The Fed did not have the confidence that the bank would survive. Other banks such as Barclays also dropped their bids to purchase Lehman Brothers. Although Lehman Brothers seemed "too big to fail" as it failure could have an enormous impact on the financial system however the company was essentially insolvent hence the Fed could not guarantee a return on the taxpayer's money by resuscitating Lehman Brothers. Thus the federal reserve's role as the last ditch lender was appropriate for Bear Stearns and AIG, however not for Lehman Brothers.

Taking cues from the approach taken by the Federal Reserve, Kuwait should only provide funds to investment companies wherein the problem of the company pertains to liquidity rather than solvency. A base rule for the government to step in and aid the troubled companies, was that the company should fulfill the requirements to be a "too big to fail" company i.e. the failure of the company can deeply impact the financial condition of Kuwait. Each company should come up with its own case study as to why they require the facilities from the government. And <u>if</u> they meet the "too big to fail" criteria, then the company receiving the loans should clearly state the reason the utility of the loan and only utilize the loans towards solving that problem.

Loans should also be made available to investment companies that are willing to help in consolidating the investment sector. Further, similar terms and conditions should be placed on the loan to ensure the borrowed amount is used for the purpose of consolidation.

Microeconomics Summary

The investment sector of Kuwait comprises of 82 investment companies as per the CBK list of September 2015. Of this 29 companies are listed on Kuwait Stock Exchange while 53 companies are not. However, the analysis was conducted on only 36 investment companies, 29 listed companies and 7 unlisted companies, as the remaining companies' financial statements were not available.

The analysis was based on five years: Pre-crisis, crisis, post-crisis and the present (FY 2014 being the present as the latest available financial statements for all the companies were as of FY 2014). The overall analysis compared the companies' performances at pre-crisis period, crisis period and the present period to demonstrate the investment sector companies' fluctuations and shifts. Moreover, the appendix covers the individual analysis of each of the 36 investment companies separately. Pre-crisis, the analyzed investment sector in Kuwait enjoyed a fertile period as total assets amounted to KD 10.2 Bn in FY 2007 of which KD 5.2 Bn were investment assets. The sector's net profit during the same period reached KD 0.85 Bn. In FY 2008 as the global financial crisis hit, the investment sector of Kuwait took an adverse turn and total assets declined to KD 7.4 Bn in FY 2010 while the investment sector witnessed a net loss of KD 0.21 Bn.

Based on the study conducted, the analyzed investment companies faced further decline by FY 2014. Total assets amounted to KD 5.9 Bn in FY 2014 as compared to KD 10.2 Bn in FY 2007. In FY 2014, investment assets also declined to KD 3.2 Bn. Further, the analyzed companies witnessed a turnaround from a loss of KD 0.21 Bn in FY 2010 to a profit of KD 0.10 Bn in FY 2014. This improvement signifies a slight growth however the investment sector requires reforms to actually progress and contribute considerably to the development of Kuwait's economy.

Survey

The survey was conducted to get a thorough insight of the investment sector from expert personnel.

Key highlights from the survey included the following:

1. The ideal number of board members is 6 to 10 as maximum efficiency can be attained by maintaining a smaller board rather than a larger board.
2. Board tenure duration should be circa 9 years to reach maximum utility. Frequent board rotation is inefficient as results may not be achieved during a short tenure. Tenures longer than circa 9 years could lead to lack of innovation and loss of independency.
3. Most of the respondents indicated that the remuneration of the CEO was decided by the board members but a more suitable approach is to have a compensation committee comprising of independent directors who should be responsible for remunerations.
4. Research indicates that three quarters of the board members should be independent however only 22% of respondents indicated that their board members consist of half or more independent board members.
5. None of the respondents indicated that their C-team and directors' remunerations consist of stock options which is concerning as the remuneration of those should be linked to the performance of the company to prevent excess risk taking with the objective to increase shareholders value.
6. Mismatch in asset vs liability duration and deficient risk management practices were the key reasons behind the severe impact of the financial crisis of 2008.
7. Implementation of sound bankruptcy law is essential as it would facilitate liquidation and aid in reorganization of the investment sector.
8. Survey respondents suggested that raising the minimum capital requirement would be ineffective in preventing companies from future crises as utilization of the capital is of more significant as compared to the absolute figure.

Legal Shortcomings

Kuwait's legal system requires a drastic transformation as it lacks on the regulatory front and lack of adequate experience and knowledge on the workforce front. The following are the legal shortcoming in Kuwait:

1. *Bankruptcy law*: Introduction of a well-designed bankruptcy law that will be able to swiftly facilitate liquidation and orderly restructuring of distressed firms to aid in reorganization of the investment sector. The current bankruptcy law under Code 68 of 1980 does not meet international standards in covering range of companies, or in restructuring debt. Moreover, the creditors have little or no bargaining power in negotiating fair settlement.

2. *TARP:* Introduction of troubled assets management programs (TARP) to provide much needed liquidity for the investment sector. However, each investment company should devise their own business plan and debt repayment plan to use the facilities modelled on the lines of TARP.

3. *Improvement and development of laws:* Lack of legislative planning as long confounding and archaic documentary cycles are made worse by the absence of effective online portals and databases along with lack of reliable information on how the law would be implemented by the public body[1].

4. *Investment schemes:* Foster creative investment schemes such as Real Estate Investment Trusts (REITs) and other innovative financial products in Kuwait.

5. *Public bodies:* In many cases public bodies intervene and prohibits (without legal basis) certain actions expressly approved by company shareholders and not contrary to the law. Further, overlapping jurisdictions and ultra vires decisions of public bodies regulating the same matters. For example, article 172 of the companies' law 8 entitles shareholders to dispose of their shares once the company issues its first balance sheet, but not before 12 months. However, the Capital Markets Authority maintains express and ultra vires prohibition on this article, an example being the prohibition imposed on Kuwait Telecom Company KSC ("VIVA") established more than 6 years ago[1].

6. *Qualified staff and procedural knowledge:* Lack of qualified staff at the public body that have required procedural legal knowledge to implement the law effectively. Moreover, lack of uniformity and non-constitutional abuse of power by senior officials[1].

7. *Communication:* Lack of systematized communication, as formal communications which should be a requirement is usually overlooked.

[1]*International Counsel Bureau - Legal and Administrative Challenges in Kuwait's Commercial Environment: The Regulatory Framework of the Companies Law and its Application - October 2014*

Conclusion

Kuwait's investment sector played a vital role in the economy, before the global financial crisis of FY 2008 as companies' and investors' had confidence in the market, seized investments opportunities, undertook risks and took advantage of the investment regulations at that time.

Since the global financial crisis hit, Kuwait's investment sector witnessed an overall decrease in performance. Currently, Kuwait's investment sector is distressed with companies' and investors' lacking confidence in the market, unwilling to take on risks and dissatisfied with regulations and regulators. In addition, the sector is troubled with a mismatch of assets and liabilities. Moreover, the sector is overloaded with investment companies as well as investment companies that operate in non-investment activities. Hence, urgent reforms are the requirement of the hour.

The investment sector's resurrection is a must to revitalize the economy. Firstly, Kuwait should seek to improve and amend regulations to cover all aspects of investment as well as minimize restrictions and constraints of regulations that are holding the sector from prospering. As an initiative, FDI Law should be supported and promoted to attract foreign companies that will bring their expertise, experience and knowledge to the market plus creating opportunities for the investment sector. Secondly, the investment sector should seek to consolidate the weaker companies with other sound companies within the sector. Also, companies that are operating in non-investment activities should be released from the sector in order to precisely reflect the performance of the sector, either positive or negative. Thirdly, the investment sector should seek to enlarge the pie by providing various investment avenues and means to stir and energize the sector. For instance, Kuwait should promote Public Private Partnership to the investment sector with the aim of diversifying the sector. Finally, the most vital stage for the investment sector will be the **implementation stage!** The investment sector has always lagged behind in the implementation stage where recommendations and solutions from various sources were overlooked or ignored. At this stage, investment companies' should endure and stand firm as challenges might rise but a turnaround is possible if accurate and tangible actions are executed.

Recommendations for Kuwait's Investment Sector

Union of Investment Company's Role

Union of Investment companies is the perfect entity for lobbying the recommendations to revitalize the investment sector to the parliament. UIC was created with *"the desire to cure the big gap in the investment market in Kuwait. This is through revising the economic legislations and introducing suggestions to make them fit the different working investment companies in the market, which play a great and effective role in developing Kuwaiti economy and so investment in Kuwait and creating new investment tools to make Kuwait a prestigious financial center among countries in the region".* A key role can be played by the Union of Investment Companies (UIC) as it has 38 investment companies as its members which would help in the implementation of the recommendations. Also, UIC has a unique opportunity of gaining an insight into Kuwait's investment sector. Further, UIC comprises of only 38 investment companies as members while there are more than 80 investment companies in Kuwait. UIC should work towards inviting more investment companies as its member so it can be representative of the entire investment sector.

The regulatory bodies in Kuwait should take it upon themselves to ensure clarification of the rules they introduce and oversight on its application. Prior to introduction of the rules, adequate time should be provided for agreeing/clarifying doubts of the initial draft of the rules.

A committee should be created by UIC that would interact with competent officials from the Capital Market Authority (CMA), Central Bank of Kuwait, Kuwait Stock Exchange, Ministry of Commerce and Industry (MOCI) and independent experts. The committee would facilitate discussions regarding consistent implementation of the rules, impacts of the rules and avoid conflicting rules.

UIC should create a platform that enables the consolidation of the investment sector. UIC should also conduct discussions with all investment companies in order to understand the state of each investment company. Further, they should understand the number of companies that are interested and that are willing to acquire or merge with another investment company. Furthermore, through the discussions UIC should understand the number of companies who are willing to undertake the role of an 'anchor company' for the consolidation of the investment sector.

According to the survey respondents, the committee should also look into the effectiveness of oversight bodies such as the CMA. Basis for hiring personnel at CMA should be revisited to ensure competent personnel are only hired. Registered Persons at investment companies are registered and oversight is undertaken by the CMA. Similarly, the committee should oversee the hiring policy at the CMA to ensure that the personnel are not inept or are not providing procedural barriers to inhibit a successful implementation of the recommendations.

Consolidation of the Investment Sector

Firstly, this study relied on investment sector data under the CBK supervision as of Sept 2015 which included 82 companies. However, post the advent of the Capital Market Authority, it is key to note multiple companies rescinded their financing licenses and opted out of CBK supervision.

Analyzing the six-year period, before the financial crisis, Kuwait investment sector witnessed 24.8% growth in assets between FY 2002 – FY 2008 on account of liquidity available and the number of investment companies grew from 38 to 99 during the same period. The global financial crisis led to stagnation of growth worldwide and a majority of the investment companies within Kuwait felt its repercussions as well leading to a fall of over KD 2 Bn in FY 2009. Post crisis, the investment sector has not been able to recover as key gauges such as total assets amounted KD 10.5 Bn in Q1 2015 as compared to KD 14.4 in FY 2009.

The investment sector comprises of companies that were investment companies once and now shifted their focus to other revenue streams. In FY 2014, out of 36 companies, only 13 companies' main source of revenues came from investment revenues. Total investments revenues amounted to KD 184.3 Mn which contributed 33.6% to net revenues as compared to FY 2009 where total investments revenues amounted to KD 824.4 Mn contributing 56.3% of net revenues. Examples of a company that has shifted its operational focus is company 21 (refer appendix) whose investment income contributed 61.7% to its net revenues in FY 2007 as compared to 2.3% in FY 2014. Another example is company 17 who had diverse operation in FY 2007 and amongst them investment revenues accounted for 57.6%. However, after the crisis the company moved its focus from investment activities to solely concentrate on hotel service revenues.

Further, Kuwait's investment sector post crisis has been under considerable distress as it had relied on short term debt to fund long term illiquid assets. The investment companies battled with issues such as asset-liability mismatches and unprofitable business models and pushed to reschedule the debt. On the other side, banks were also impacted and hence lack of new funding resulted in a liquidity squeeze. Given the issues faced by the investment sector the banks agreed to extend credit lines and refused to avoid booking losses associated with debt default. These agreements delayed many investment companies from bankruptcy thus leading to capital depletion and creation of zombie companies. Zombie' companies continue to bleed and waste resources, which could otherwise be used for better purposes.

Thus, the investment sector has investment companies whose main activities are not investment related and some investment companies that are essentially zombie companies. Hence the investment sector is no longer playing this critical role thereby hampering the country's development process

The need for consolidation is critical as it a pre-condition to pave the way for a stronger and competitive investment environment that would be better for the future and the development of the investment sector. The pertinent group to govern the consolidation is ***Union of Investment Companies (UIC)***. UIC was created with *"the desire to cure the big gap in the investment market in Kuwait. This is through revising the economic legislations and introducing suggestions to make them fit the different working investment companies in the market, which play a great and effective role in developing Kuwaiti economy and so investment in Kuwait and creating new investment tools to make Kuwait a prestigious financial center among countries in the region".* This makes UIC the perfect entity for lobbying the recommendations to revitalize the investment sector to the parliament. Further, the union comprises of 38 investment companies which provides it a unique opportunity of gaining an insight into Kuwait's investment sector enabling it to administer a smoother consolidation.

Consolidating the sector would help the government as the government would not be approached to bail out weak companies. Consolidation of the weak companies with stronger companies would rationalize businesses to achieve greater productivity.

UIC should create a platform that enables the consolidation of the investment sector. UIC should also conduct discussions with all investment companies in order to understand the state of each investment company. Further, they should understand the number of companies that are interested and that are willing to acquire or merge with another investment company. Furthermore, through the discussions UIC should understand the number of companies who are willing to undertake the role of an 'anchor company' for the consolidation of the investment sector. The anchor companies should

be backed with strong financials i.e. stable asset base, profitable income statement, low leverage ratios. The anchor companies will then be presented to all the investment companies as potential merger partners. All the remaining investment companies will be provided with the required information to process, that will enable consideration of a merger or an acquisition. Once the information is processed, they will be offered with a choice to merge with one of the anchor investment companies. The merged groups will be allowed benefits such as cross selling of investments and financial services within the same group as this will help to maximize synergy of the group. Further, the benefits of the merger to each entity is stated below:

Benefits to the anchor investment companies

The benefits to the anchor investment company by taking on the weaker companies is as follows:

1. *Gain:* The anchor company gains by buying the smaller company at fair value rather than book value and through synergy and economies of scale increases the value of the merged company
2. *Market share*: The merged company will have an increased market share
3. *Greater Pricing Power*: Greater pricing power due to reduced competition resulting in higher margin and operating income
4. *Combination of different functional strengths*
5. *Diversification*: The merged companies may have access to more geographies and sectors
6. *Product development:* The merged company may have more lines of service business lines
7. *Knowledge:* Merging presents the opportunity to team up specialists from various areas of the investment sector
8. *Economies of scale:* Increased output can reduce the average costs which enables lower cost for the consumers
9. *Operating Synergy*: economies of scale arise from mergers leading to the merged firm becoming more cost-efficient and thus profitable

Benefits to the merging investment companies

In addition to market share, diversification, product development and knowledge the weaker companies will have the following benefits

1. *Access to Funds:* Merging provides the weaker companies with access to more funds to develop at lower interest rates
2. *Knowledge*: Underperforming businesses may obtain quality staff or additional knowledge that would help the business to enhance
3. *Access to customers:* Merging would provide the weaker companies access to a wider customer base which would not have been possible to attain prior to the merger
4. *Cost efficiency:* The merger would reduce costs and overheads such as eliminating duplicate departments, office rental space etc.

Additionally, UIC should be aware of the following potential pitfalls that may arise during consolidation and ensure the proposed merger aids progress and not hinder it.

1. *Interference from governmental agencies:* Awareness amongst other governmental agencies such as Ministry of commerce and industry (MOCI) and CMA within Kuwait regarding the proposed consolidation is crucial to ensure a smooth transition of the consolidation of the investment sector. The committee should be created by UIC to deal with public bodies will help in these cases.
2. *Reverse acquisition:* Should a reverse acquisition take place, UIC should discuss with the committee which includes officials from the Capital Market Authority (CMA) and Kuwait Stock Exchange to ensure reverse acquisition rules do not apply in these cases.
3. *Debt clause:* The committee should study potential impacts and discuss how to address them. For example, loan covenants being broken due to consolidation, CBK key ratios such as leverage ratios being impacted.

Road Map for Consolidation of Investment Companies

Stage	Tasks and authorities	Results	Advisor role	Company role
Phase 1 Approvals	1. Company A & B approve the valuation reports. 2. Company A & B provide their shareholders with recommendations for the share swap transaction. 3. Company A & B should receive 75% shareholders' approval on the share swap transaction. 4. *MOCI/ CMA/ KSE**	1. Shareholders approvals on the share swap transaction. 2. Readiness to process the transaction.	Valuation team will update the valuation reports & legal team will advise on dealing with the shareholders.	Provide required data for valuation reports update. The BOD of both companies will provide recommendations for shareholders.
Phase 2 Agreements	1. Both companies should sign a contractual agreement / offer document approving to proceed on with the share swap transaction. 2. Both companies' boards agree upon the writing off any accumulated losses for company A & B. 3. Both companies should agree upon the capital increase for Company A to enable an acquisition of Company B. 4. *MOCI/ CMA/ KSE**	The board of both companies will call for an extraordinary AGM.	The legal team will provide the contractual agreement / offer document.	Signing the agreement on proceeding with the share swap transaction and call for an extraordinary AGM.
Phase 3: Extraordinary General Meeting (EGM)	1. Approve on writing off accumulated losses for both companies. 2. Approve on the capital increase for Company A as per the amount of shares to be transferred to Company B shareholders. 3. *MOCI/ CMA/ KSE**	Both companies will be ready to process the share swap transaction.	The legal team will supervise the EGM and carry out all related tasks for the capital reduction and increase.	Providing shareholders on recommendation on the writing off accumulated losses and capital reduction and capital increase.
Phase 4: Capital Market Authority Approval	1. Company A will seek approval on the capital increase from the CMA. 2. Company A will be required to provide the CMA with a prospectus indicating the reasons for capital increase. 3. *CMA.*	Company A will be able to issue new shares to Company B shareholders.	Valuation team will prepare the capital increase prospectus.	Provide required data for prospectus.
Phase 5: Share swap transaction	1. Company B shareholder's shares will be transferred to Company A.	Company A will acquire Company B through the transfer of Company B	Legal team will prepare the share sale draft contract and carry out all legal related tasks	NA

	2. Company A will acquire a specific % of Company B. 3. Company B will become a subsidiary of Company A. 4. *MOCI/ CMA/ KSE**	shareholder's shares.	to seal the transaction. Supervising the share swap transaction process.	

**Authorities from whom approval might be required*

Note: The above is an indicative list only. Companies are advised to have an investment advisor/lawyer to ensure all legal/regulatory aspects are met. The number of phases could increase or decrease depending on the case under consideration.

Consolidation Example of Investment Companies

A hypothetical of a two investment companies merging/acquiring is shown below:

	Company A 20X1	Company B 20X1	Consolidated
Available for sale investments	6,690,004	8,180,699	14,870,703
Investment property	6,076,481	6,278,464	12,354,945
Investment in associate	-	3,574,231	3,574,231
Wakala investment receivable	-	1,260,397	1,260,397
Properties under development – Net	773,080	-	773,080
Cash and bank	582,599	1,161,144	1,743,743
Investments held at Fair Value through profit or loss	-	632,498	632,498
Total receivables	607,432	11,201	618,633
Bank deposit	121,000	-	121,000
Plant Property and Equipment	20,875	1,540	22,415
Company A's investment in Company B	821,146	-	-
Total assets	**15,692,617**	**21,100,174**	**35,971,645**
Payables & other liabilities	1,249,698	2,470,810	3,720,508
Credit facilities	582,005	4,829,837	5,411,842
Employees indemnity	149,460	87,470	236,930
Total liabilities	**1,981,163**	**7,388,117**	**9,369,280**
Share capital	13,119,263	11,722,291	24,077,048
Share premium	27,225	-	465,695
Foreign currency translation reserve	(300,134)	762,610	(300,134)
Cumulative changes in Fair Value	797,870	1,209,786	797,870
Accumulated losses / retained earnings	-	-	1,357,534
Equity attributable to owners of the parent company	**13,644,224**	**13,694,687**	**26,398,014**
Non-controlling interests	67,230	17,370	204,351
Total equity	**13,711,454**	**13,712,056**	**26,602,364**
Total equity and liabilities	**15,692,617**	**21,100,174**	**35,971,645**

Post consolidation, Company A can improve profitability by eliminating duplicate expenses such as administrative expense, staff costs, rents, etc. The potential pitfall for consolidation is the loss of jobs to Kuwaiti nationals.

Case Study of a Successful Debt Restructuring in Kuwait

Many companies in Kuwait have debt on their books and have been postponing their debt every year. Restructuring debt should be considering a viable option and an option that has been successfully completed in Kuwait. The following is an example of a company, Company 13 (refer appendix,) that successfully restructured its debt

2008

Debt increased from KD 111.9 Mn in FY 2007 to KD 154.2 Mn in FY 2008. Debt restructuring plan was developed but delayed later due to the financial crisis.

2009

Debt restructuring plan was resumed & the terms of the plan were finalized between the company & the lenders by rescheduling the debt.

2010

The company's executive management changed during the year which resulted in discarding the existing debt restructure plan & a new plan development was in process.

2011

A new debt restructuring plan was represented to the lenders with new terms including business model restructuring.

1

2012

Lenders signed the final agreement of debt restructuring plan by debt to equity swap & it was implemented. Further, the company implemented the business model restructuring. Moreover, the company redeemed part of its bonds & wrote-off accumulated losses.

2013

The company met the covenants of the debt structuring agreement which are:

1. Current assets to total liabilities to exceed 10%
2. Total liabilities to total equity not to exceed 2x
3. Minimum coverage of assets pledged is 120% of the outstanding debt.

2014

The company met the covenants of the debt structuring agreement. Debt matures by December FY 2017 with rolling over option of KD 11.0 Mn.

1

Company 13 has become the first investment company in Kuwait to complete its debt restructure **successfully**.

The business model was implemented which had a positive impact on results.

The debt restructuring plan was implemented by increasing share capital by KD 50 Mn to new shareholders & KD 15 Mn to existing shareholders while the remaining debt was rescheduled over five years' period.

The restructuring resulted in a gain of KD 11.4 Mn.

Raising Minimum Capital

After analyzing the relative ranking (based on the set parameters) of the investment companies considered in this study, the following conclusions can be drawn. Amongst the 35 companies, the range of share capital is from KD 15.1 mn to KD 113.3 mn. The company with KD 15.1 mn capital is ranked **14** whereas the company with share capital of KD 113.3 mn is ranked **11**. Further, companies with share capital of KD 31.1 mn, KD 25.5 mn and KD 26.3 mn are ranked higher than the company with KD 113.3 mn at rank 5, rank 7 and rank 8 respectively. On the flip side, companies that are ranked in the bottom 3 i.e. rank 33, rank 34 and rank 35 have KD 21.3, KD 21.0 and KD 29.8 mn as share capital respectively. Hence it can be concluded that the absolute amount of share capital does not result in a company performing well.

Furthermore, majority of the survey respondents, both corporate (61%) and expert (63%) views, suggested raising the level of minimum capital to be an ineffective measure to prevent companies from future crisis. Respondents indicated that it matters what you do with the capital rather than how much you have; as increased capital cannot be a substitute for sound management practices.

Nevertheless, as a recommendation the required share capital for investment companies could be revised and increased to KD 25.0 Mn from KD 15.0 Mn. This would reduce the number of overall companies by eliminating companies that are not willing to increase their share capital due to losses, pursuing non-investment activities and any other reasons. This increase in share capital would also help to consolidate the sector, as was the case for brokerage companies in Kuwait wherein share capital for randomly sampled brokerage companies was between KD 2 mn to KD 5 mn and the minimum share capital was increased to KD 10 Mn for all registered brokerage companies vide Resolution (32) of 2013 of the CMA. It is understood that this forced 3 registered brokerage companies to cease operations while another two mergers. This reduced the number of brokerage firms from 14 to 9. Another method of consolidation is by raising minimum capital of investment companies for the purpose of acquiring potential targets, through an equity swap.

If a proposal for increased share capital is to be considered, then a government mandate should force all investment companies to undergo a risk assessment in order to assess every investment companies risk profile and accordingly increase the minimum capital at an individual company level as opposed to a blanket amount on a sector level. Raising the capital for all the investment companies without taking into consideration the size of the company, company activities and company risk is inappropriate as all the companies may not possess the same level of risk and increasing the capital may hinder progress instead of aiding progress. For example, European Union directive 2006/EC/49 states that it is appropriate to establish different amounts of initial capital depending on the range of activities that investment firms are authorized to do. As per the same directive, existing investment firms should be permitted, under certain conditions, to continue their business even if they do not comply with minimum amount of initial capital fixed for new investment firms.

Capital adequacy ratios for investment companies in select GCC countries

Bahrain

Investment companies in Bahrain need to maintain a minimum level of capital and Category 1 investment companies are also required to make their own assessment of the appropriate level of capital they need to hold.

Principle 9 of the Principles of Business requires that investment firm licensees maintain adequate human, financial and other resources, sufficient to run their business in an orderly manner. In addition, Condition 5 of the Central Bank of Bahrain's ('CBB') Licensing Conditions (Section AU-2.5) requires investment firm licensees to maintain financial resources in excess of the minimum requirements as agreed by CBB for the level of business proposed. The level of financial resources held must exceed at all times the minimum requirements as specified for the category of investment license held.

Investment firm licensees are required to maintain, at all times, the Minimum Capital Requirement free from any pledge or any other restriction, in a retail bank licensed to operate in the Kingdom of Bahrain. They must provide, upon request, evidence to the CBB of the deposited amount

The requirements vary according to the category of investment firm licensee concerned, their inherent risk profile, and the volume and type of business undertaken. The purpose of such requirements is to ensure that investment firm licensees hold sufficient capital to provide some protection against unexpected losses, and otherwise allow investment firms to effect an orderly wind-down of their operations, without loss to their customers or those of other firms. The minimum capital requirements specified here are not sufficient to absorb all unexpected losses. This applies to both Bahraini investment firm licensees and overseas investment firm licensees. In the event that an investment firm licensee fails to meet any of the requirements it must, on becoming aware that it has breached these requirements, immediately notify the CBB in writing. Unless otherwise directed, the licensee must in addition submit to CBB, within 30 calendar days of its notification, a plan demonstrating how it will achieve compliance with these requirements.

Should the CBB direct an investment firm licensee to inject additional working capital in order to maintain the minimum capital requirements for its category of license, the investment firm licensee may inject cash in the form of a subordinated loan from the shareholders, subject to the CBB's prior approval. Such amount will be included as Tier 2 capital and must have a minimum original fixed term to maturity of more than 5 years.

Category of investment firms	Regulatory Capital Requirement
Category 1 Category 1 investment firms may undertake any regulated investment service, as listed below: a) Dealing in financial instruments as principal; b) Dealing in financial instruments as agent; c) Arranging deals in financial instruments; d) Managing financial instruments; e) Safeguarding financial instruments (i.e. a custodian); f) Advising on financial instruments; and g) Operating a collective investment undertaking (i.e. an operator).	Higher of their Risk-based Capital Requirement and their Minimum Capital Requirement
Category 2 Category 2 investment firms may undertake any regulated investment service except that of 'dealing in financial instruments as principal'.	Higher of their Risk-based Capital Requirement and their Minimum Capital Requirement
Category 3 Category 3 investment firms may undertake the following regulated investment services only: a) Arranging deals in financial instruments; and b) Advising on financial instruments.	Minimum Capital Requirement

Minimum Capital Requirements are:

(a) Category 1 investment firms: BD 1,000,000;
(b) Category 2 investment firms: BD 1,000,000 if undertaking the activity of safeguarding financial instruments (i.e. custodian), BD 250,000 in all other cases; and
(c) Category 3 investment firms: BD 125,000.

The Risk-based Capital Requirement is the sum of a firm's Expenditure Requirement, Position Risk Requirement (PRR), Counterparty Risk requirement (CRR), and Foreign Exchange Risk Requirement (FER), as following:

1) Expenditure Requirement

a) The Expenditure Requirement is equal to one quarter of the relevant annual expenditure.
b) For newly established investment firm licensees, for the first year of operations, the total annual expenditure is based on the projected annual expenditure figure for the first year as stated in the business plan submitted during the authorization stage.
c) Items that could be reduced or eliminated within a short period are:
   i) Bonuses paid out of the relevant year's profits which have not been guaranteed;
   ii) Profit shares and other appropriations of profit, except for fixed or guaranteed remuneration which is payable even if the investment firm licensee makes a loss for the year;
   iii) Paid commissions shared, other than to employees or Directors of the investment firm licensee;
   iv) Fees, brokerage and other charges paid to clearing houses, clearing firms, exchanges, and intermediate brokers for the purposes of executing, registering or clearing transactions;
   v) Interest payable to counterparties; and
   vi) Interest payable on borrowings to finance the investment firm licensee's investment firm and associated firm.

2) Position Risk Requirement (PRR)

a) An investment firm licensee's Position Risk Requirement is the sum of its individual Position Risk Requirements, calculated as a percentage of the market or realisable value of each financial instrument held, as specified in Schedule 1 below:

(a) Debt	<90 days	90 days – 1 year	1 – 5 years	>5 years
Organization for Economic Cooperation and Development (OECD)	2% x MV	2% x MV	5% x MV	10% x MV
Issued or accepted by banks	2% x MV	2% x MV	5% x MV	10% x MV
Other marketable financial instruments	10% x MV	10% x MV	20% x MV	30% x MV
Floating rate notes	<20 yrs	5% x MV		
	>20 yrs	10% x MV		
**MV – Market or realizable value*				
(b) Equities				
Listed on a regulated financial instrument exchange				25% x MV
Listed on Bahrain Stock Exchange				25% x MV
Traded on a regulated financial instrument exchange				35% x MV
Traded on Bahrain Stock Exchange				35% x MV
Other				100% x MV
(c) Commodities				
Stock positions in physical commodities associated with an investment firm licensee's investment firm				30% of realizable value

(d) Futures, options and contracts for differences	
Exchange traded futures and written options	4 x initial margin requirement
Off exchange futures and written options	The appropriate percentage shown in a, b and c above should be applied to the value of the underlying position.
Purchased options	As for off exchange written options but limited to the current value of the option.
Contracts for differences	20% of the market value of the contract.
(d) Other investments	
Single premium unit linked bonds and units in a regulated collective investment scheme unless covered below	25% of realizable value
Units in a regulated scheme which is a geared futures and options fund, or a property fund, or a warrant fund	50% of realizable value
With profit life policies	20% of surrender value
Any other investments	100% of amount of asset

3) Counterparty Risk Requirements (CRR)

(a) Cash against document transactions

Where an investment firm licensee has unsettled deals in any securities it must calculate the price difference to which it is exposed and then multiply this by the appropriate percentage below to calculate the CRR for each separate unsettled deal.

Calendar days after settlement	Percentage
0–15	Nil
16–30	25%
31–45	50%
46–60	75%

(b) Free deliveries

Where an investment firm licensee makes payment or delivers securities to a counterparty without receiving the certificate/good title or payment respectively, it must calculate a CRR for each free delivery by applying the appropriate percentage below:

Where free delivery has been made to:	Business days since delivery		
	0–3	4–15	>15
A manager, underwriter or member of a selling syndicate to whom payment for securities has been made	0%	0%	100%
An investment firm licensee to whom securities have been delivered or payment has been made with the expectation that market practice will result in a settlement date longer than three days from delivery date.	15%	15%	100%
Any other counterparty	0%	100%	100%

(c) Options purchased for a counterparty

Where an investment firm licensee has purchased an option on behalf of a counterparty on terms which do not impose on the purchaser any actual or contingent margin requirement or liability to make any payment other than the initial purchase price of the option, and the counterparty has not paid the price by three days after trade date, the CRR is the amount by which the purchase price exceeds the current realizable value of the option.

Where an investment firm licensee has purchased a traditional option for its own account or on behalf of a counterparty that has not paid the investment firm licensee , then, if the investment firm licensee has paid the option premium to the writer, it must calculate a CRR equal to the option premium.

(d) Amounts owed in respect of exchange traded margined transactions		
1) Where, as a result of a traded margined transaction, a counterparty of the investment firm licensee has an initial margin and/or variation margin requirement and has not met it fully with cash, acceptable collateral or a positive equity balance not used to meet variation margin, an investment firm licensee must calculate a CRR by multiplying the shortfall (or the relevant part of the shortfall) by the appropriate percentage contained in the schedule below:		
Initial and variation margin percentage schedule		
	Business days since shortfall occurred	
Where the shortfall is for the account of:	**0–3 days**	**4 days and over**
a. A market counterparty who has been granted a credit line under an adequate credit management policy available to cover the relevant category of margin and to the extent that it is sufficient to cover the shortfall.	5%	5%
b. A client who has been granted a credit line under an adequate credit management policy available to cover the relevant category of margin and to the extent that it is sufficient to cover the shortfall.	10%	10%
c. A market counterparty or client not within A or B above, or to the extent that he is not within A or B (the shortfall then being limited to the excess).	0%	100%
2) Local or traded option market makers. An investment firm licensee must calculate a 100% CRR for amounts of initial and variation margin not met with acceptable collateral or a positive equity balance and owed to it by a local (or by a traded option market maker) in respect of a traded margined transaction from the date of any shortfall, unless the investment firm licensee treats the local's (or market maker's) position as if it were its own		
3) Sums owed on closed out exchange traded margined transactions. When, as a result of a traded margined transaction which has been closed out, a counterparty of the investment firm licensee owes any amounts to it arising out of losses on those transactions, and has not fully met that amount through the deposit of cash, acceptable collateral or a positive equity balance not otherwise used, the investment firm licensee must after three days from the date of crystallization of the loss calculate a CRR equal to the unpaid amount.		
4) Margin percentages. An investment firm licensee may, with the prior approval of the CBB, opt to calculate the CRR using a higher or the highest initial margin or variation margin percentage, in order to avoid undue complication.		

(e) Concentrated risk to one counterparty	
If the total amount due to a licensee for free deliveries or other debts attracting a CRR from a single counterparty (or a group of closely related counterparties) exceeds 25% of the licensee's capital available, it must calculate CRR by applying the appropriate percentage below:	
Amount of capital available	**Additional CRR**
0–25%	Nil
25.01–50%	15% (or the entire excess if less)
Over 50%	40% (or the entire excess if less)

(f) Repurchase and reverse repo transactions, including sale and buy back and securities lending
An investment firm licensee shall notify the CBB if it has counterparty exposures in these investments.
(g) Swaps, forward contracts, over the counter options, contracts for differences and off-exchange futures
An investment firm licensee shall notify the CBB if it has counterparty exposures in these investments.
(h) Loans to counterparties (including free delivery payments)
An investment firm licensee must calculate a 100% CRR on the amount by which a loan to a counterparty is not properly secured, or offset against an amount owed by the investment firm licensee to the counterparty (provided there is an agreement in writing that the investment firm licensee deems to be legally enforceable and effective to secure such set-off).
(i) Other receivables and accrued income
Other receivables and accrued income not covered elsewhere attract 100% CRR from the time that they become due.

4) Foreign Exchange Risk Requirements (FER)

a) For each foreign currency (that is, any other currency other than that in which the investment firm licensee's financial statements are presented) in which the investment firm licensee has monetary assets or liabilities or any off balance sheet contracts which would give rise to a position in that currency, the investment firm licensee should calculate the net open position (netting assets and liabilities). This should be converted into the presentation currency. Where the price of an investment is quoted in more than one currency, a position in the investment shall be treated as an asset or a liability in the currency of the country in which the main or principal market in the investment is based. (Options included in the position risk requirement are to be excluded from these calculations).

b) Monetary assets or liabilities or any off balance sheet contracts which would give rise to a position in currencies of Gulf Cooperation Council countries or United States dollar are exempted for the purposes of calculating regulatory capital requirement.

c) An investment firm licensee's foreign exchange risk calculation must include the following items regardless of whether they are trading or non-trading positions
   i) All spot positions in foreign currency (that is, all asset items less all liability items, including accrued interest, in the foreign currency in question); and
   ii) All forwards positions in foreign currency (net present value in respect of notional position).

d) An investment firm licensee's foreign exchange risk calculation shall not include the following:
   i) Foreign currency assets which have been deducted in full from the firm's capital resources under the calculation under the capital resources table;
   ii) Position hedging where it is of a non trading or structural nature;
   iii) Positions of a non trading or structural nature that a firm has deliberately taken in order to hedge against the adverse effect of the exchange rate on the ratio of its capital resources to its capital resources requirements; and
   iv) Transactions to the extent that they fully hedge net future foreign currency income or expenses which are known but not yet accrued.

e) Where an Investment firm licensee does not include position hedging in its foreign exchange risk calculation, it shall:
   i) Notify the CBB before such exclusion and the terms on which the relevant item will be excluded;
   ii) Document its policy in the use of that exclusion in its trading book policy statement.

f) The net overall position is the sum of all the spot and forward positions. (Note that all the positions should be converted into the presentation currency)

g) Spot net position is calculated as the difference between the gross spot assets and gross spot liabilities. Forward net position is calculated as the difference between the gross forward purchases and gross forward sales

Kingdom of Saudi Arabia

An authorized person shall continuously possess a capital base which corresponds to not less than the total of the minimum capital requirements.

The capital base of an authorized person shall comprise the total of:

1) Tier-1 capital, which shall include the following:
    a. Paid-up capital;
    b. Audited retained earnings;
    c. Share premium;
    d. Reserves (other than revaluation reserve); and
    e. Tier-1 capital contributions
        i. Unconditional Tier-1 capital contributions shall be included as Tier-1 capital.
        ii. Conditional Tier-1 capital contributions shall only be included as Tier-1 capital if their conditions state that the governing body decides on the repayment of the contributions.
        iii. In order for an authorized person to include a Tier-1 capital contribution as Tier-1 capital, the contribution must have been paid in to the authorized person.
        iv. Tier-1 capital contribution instruments may represent a maximum of 15% of the authorized person's Tier-1 capital after the reductions of Tier-1 capital in accordance with these Rules

2) Tier-2 capital may include the following:
    a. Perpetual subordinated loans and fixed term subordinated loans with an original term to maturity of not less than five years. The terms of the perpetual subordinated loan shall state that the authorized person shall be able to defer payment of the interest on the loan, when:
        i. The authorized person reports a negative operating income; or
        ii. The governing body has decided not to pay a dividend
    b. Cumulative preference shares in Tier-2 capital after obtaining the approval of the Authority
    c. Revaluation reserves
    d. Unrealized accumulated profit from investment property and tangible non-current assets at fair value shall be included in Tier-2 capital

Note: Tier-2 capital shall only be allowed up to an amount corresponding to 50% of Tier-1 capital in the calculation of the capital base for an authorized person.

Capital is required for trading book exposures which amounts to the total of the capital requirements for:

1) Counterparty risks for trading book exposures;
2) Settlement risks for trading book exposures;
3) Market risk (that is the risk of market price movements) for trading book operations;
4) Foreign exchange risks and commodity risks in the entire operations.

For such trading book exposures, an authorized person may, after obtaining an approval from the Authority, calculate the capital requirement in accordance with the rules for non-trading activities. Approval shall be granted by the Authority where the total market value of the positions in the trading book and receivables attributable thereto:

a. Normally does not exceed 5% of the sum of the authorized person's balance sheet total and total off-balance sheet commitments;
b. Normally does not exceed an amount equivalent to SAR 75 million; and
c. On no occasion exceeds 6% of the sum of the authorized person's balance sheet total and total off-balance sheet commitments, nor exceeds an amount equivalent to SAR 100 million.

For positions relating to non-trading activities, capital is required which corresponds to not less than 14% of the authorized person's risk-weighted exposure amounts.

For each exposure, the risk weighted exposure amount shall be calculated by multiplying the exposure amount by the risk weight that applies for that exposure.

Each non-trading activities exposure shall be assigned to one of the following exposure classes:

1) Exposures to governments and/or central banks;
    a. Exposures to governments or central banks for which a credit rating is not available shall be assigned a risk-weight of 150%.
2) Exposures to administrative bodies and non-profit organizations;
    a. Exposures to administrative bodies and non-profit organizations shall be assigned a risk weight of 100%.
        i. Where exposures to administrative bodies are treated by the Authority as exposures to governments and central banks, such exposures may be assigned the same risk weight as governments and central banks.
        ii. Where the Authority treats exposures to administrative bodies as exposures to authorized persons, such exposures may, with the approval of the Authority, be assigned the same risk weight as exposures to authorized persons
3) Exposures to authorized persons, banks and foreign equivalents that are subject to capital adequacy rules similar to those applied in the Kingdom;

    a. Exposures to authorized persons, banks and foreign equivalents in countries where credit ratings for the government are available shall be assigned a risk-weight according to one of the credit quality steps set out in table below.

Credit quality step	1	2	3	4	5	6
Risk Weight	20%	50%	100%	100%	100%	150%

    b. Exposures to authorized persons, banks and foreign equivalents in countries where credit ratings for the government are not available shall be assigned a risk-weight of 150%.
4) Exposures to corporates;

    a. Exposures to corporates for which a credit rating is available shall be assigned a risk weight in accordance with table below. Otherwise, a risk-weight of 714% shall be used for exposures to corporates.

Credit quality step	1	2	3	4	5	6
Risk Weight	20%	50%	100%	200%	400%	714%

5) Retail exposures;
    a. Retail exposures refer to exposures to natural persons and shall be assigned a risk-weight of 300%.
6) Past due items;
    a. Past due item shall refer to an exposure where, interest or principal are more than 90 days past due, calculated from the original agreed payment date.
    b. The unsecured part of any item that is past due (net of provision) shall be assigned a risk weight of 714%.
7) High-risk items;
    a. Exposures associated with particularly high risks such as venture capital investments shall be assigned a risk weight of 500%. Other private equity investments/unlisted shares and other participations shall be assigned a risk weight of 400%.

8) Exposures to securitization positions and re-securitization positions;
   a. Exposures to securitization positions and re-securitization positions for which a credit rating is available shall be assigned a risk-weight according to one of the credit quality steps set out in table below. Otherwise, a risk-weight of 714% shall be used.

Credit quality step	1	2	3	4	5	6
Securitization	20%	50%	100%	350%	714%	714%
Re-Securitization	40%	100%	225%	650%	714%	714%

9) Exposures to investment funds;
   a. Exposures to investment funds for which a credit rating is available shall be assigned a risk-weight according to one of the credit quality steps set out in table below.

Credit quality step	1	2	3	4	5	6
Risk Weight	20%	50%	100%	100%	150%	150%

   b. Exposures to investment funds for which a credit rating is not available shall be assigned a risk weight of 150%.

10) Exposures to real estate funds, venture capital funds, private equity funds and other closed-ended funds;
   a. Exposures to real estate funds, venture capital funds, private equity funds and other closed ended funds shall be assigned a risk-weight of 300%.

11) Real estate investments;
   a. Real estate investments shall be assigned a risk-weight of 400%.

12) Other items.
   a. Tangible assets shall be assigned a risk weight of 300%.
   b. Deferred expenditures and accrued income for which an authorized person is unable to determine the counterparty, or if it would be unreasonably burdensome for the authorized person to determine the counterparty, shall be assigned a risk weight of 300%.
   c. Holdings of listed equity shall be assigned a risk weight of 150%.
   d. Cash in hand and equivalent items shall be assigned a risk weight of 0%.
   e. Gold bullion held in own vaults or at an assigned location to the extent the authorized person has bullion liabilities shall be assigned a 0% risk weight.

Exposures in any other form of items for which rules regarding risk-weighted amounts are not provided in the above points shall be assigned a risk weight of 714%.

Example of the application of capital adequacy ratio

An example for application of capital adequacy ratio to an investment company in the Kingdom of Saudi Arabia is Audi Capital, whose disclosure on capital adequacy for FY 2015 is shown below:

Disclosure on Capital Base

The company's regulatory capital is comprised of the following:

- **Tier 1 Capital** which is considered as the core measure of the company's financial strength and includes share capital, reserves, and retained earnings.
- **Tier-2 Capital** which consists of qualified subordinated instruments, certain loan loss provisions and revaluation reserves

Audi Capital's resources as at 31 December 2015 are summarized in the table below:

Capital Base	SAR'000
Tier-1 capital	
Paid up capital	100,000
Audited retained earnings	29,974
Share premium	
Reserves (other than revaluation reserve)	9,374
Tier-1 capital contribution	
Deductions from Tier-1 capital	(2,077)
Total Tier-1 capital	**137,271**
Tier-2 capital	
Subordinated loans	
Cumulative preference shares	
Revaluation reserves	1,757
Other deductions from Tier 2	
Deductions to meet Toer-2 capital limit	
Total Tier-2 capital	**1,757**
Total Capital Base	**139,028**

Disclosure of capital adequacy ratio

Description	SAR'000
Capital Base	
Total Tier-1 Capital	137,271
Total Tier-2 Capital	1,757
	139,028
Minimum Capital requirement	
Credit Risk	54,725
Market Risk	7,149
Operational Risk	10,958
Total Minimum Capital Requirement	**72,832**
Total Capital Adequacy Ratio (times)	1.91
Surplus / (Deficit) in the capital	66,196

Audi Capital is exposed to a diversified set of risks which are common with its peer investment companies. Some of the risks are an inherent part of the business model and day to day activities of any investment company who need to have risk management capabilities focused on managing and addressing these types of risks.

1) Credit Risk

Exposure Class	Exposure before CRM SAR '000	Net exposure after CRM SAR '000	Risk Weighted Assets SAR'000	Capital Requirement SAR'000
Credit Risk				
On the balance Sheet Exposures				
Governments and Central Banks	38,876		38,876	5,443
Authorized Persons and Banks	54,698		60,498	8,470
Corporates	8,961		5,976	837
Retail	-		-	-
Investments	26,272		54,408	7,617
Securitization	-			
Margin Financing	462		693	97
Other Assets	28,884		86,840	12,158
Total On-Balance Sheet Exposures	***158,153***		***247,291***	***34,621***
Off the balance Sheet Exposures				
OTC/Credit Derivatives				
Repurchase agreements				
Securities borrowing/lending				
Commitments	9,047		64,597	9,044
Other off-balance sheet exposures				
Total Off-Balance Sheet Exposures	***9,047***		***64,597***	***9,044***
Total On and Off-Balance Sheet Exposures	***167,200***		***311,888***	***43,664***
Prohibited Exposure Risk requirements			79,008	11,061
Total Credit Risk Exposure			***390,896***	***54,725***

Break-up of Risk Weighted Assets:

Risk Weights	Government and central banks	Administrative bodies and NPO	Authorized persons and banks	Margin Financing	Corporates	Retail	Past due items	Investments	Securitization	Other Assets	Off balance sheet commitments	Total exposure after netting and credit risk	Total Risk Weighted Assets
0%										41			-
20%			10,785										2,157
50%			147		8,736								4,442
100%	38,876		14,764										59,640
150%			29,002	462				16,272					68,604
200%													-
300%								10,000		28,768			116,304
400%													-
500%													-
714% (include prohibited exposure)					225					75	9,047		66,740
Average Risk Weight	**38,876**	**-**	**60,498**	**693**	**5,976**	**-**	**-**	**54,408**		**86,840**	**64,597**		**311,888**
Deduction from Capital Base													

Disclosure on Credit Risk's Rated Exposure

Exposure Class	Long term rating of counterparties							
	Credit quality step	1	2	3	4	5	6	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3	B1 to B3	Caa1 and below	Unrated
	Capital Intelligence	AAA	AA to A	BBB	BB	B	C and below	Unrated
On and Off balance sheet Exposures								
Governments and Central Banks						38,876		
Authorized Persons and Banks		10,564						114,764
Corporates			8,736					225
Retail								
Investments		1,355						14,917
Securitization								
Margin Financing								462
Other Assets								28,885
Past Due								
Off – Balance Sheet								9,047
Total		***11,919***	***8,736***	-	-	***38,876***	-	***68,300***

Exposure Class	Long term rating of counterparties					
	Credit quality step	1	2	3	4	Unrated
	S&P	A-1+ to A-1	A-2	A-3	Below A-3	Unrated
	Fitch	F1+,F1	F2	F3	Below F3	Unrated
	Moody's	P-1	P-2	P-3	Not Prime	Unrated
	Capital Intelligence	A1	A2	A3	Below A3	Unrated
Governments and Central Banks						
Authorized Persons and Banks		368				29,002
Corporates						
Retail						
Investments						10,000
Securitization						
Margin Financing						
Other Assets						
Past Due						
Off – Balance Sheet						
Total		***368***				***39,002***

1) Market Risk

Exposure Class	Long Position	Short Position	Capital Requirement SAR '000
Market Risk			
Interest rate risks	-	-	-
Equity price risks	-	-	-
Risks related to investment funds	-	-	-
Securitization/Re-securitization positions	-	-	-
Excess exposure risks	-	-	-
Foreign exchange rate risks	114,372	-	7,149
Commodities risks	-	-	
Total market risk exposures	***114,372***	-	***7,149***

Foreign exchange risk as at 31/12/2015	Position SAR'000		Risk Capital Change (%)	Capital Requirement SAR'000
Total position in foreign currencies	Net Long	Net short		
USD and GCC currencies	73,859	0	2%	1,477
All other currencies	40,512	0	14%	5,672
Total	**114,372**			**7,149**

2) Operational Risk

Exposure Class	Overhead expenses 2015 SAR'000	Risk Capital Change (%)	Capital Requirement SAR' 000
Operational Risk			
Expenditure based approach	43,832	25%	**10,958**

3) Liquidity Risk

In SAR'000	Up to 1 year	1 to 5 years	>5 years	No fixed maturity	Total
Cash and cash equivalents	37,674			41	37,715
Accounts receivable, prepayments and other current assets	27,916				27,916
Loans	10,462				10,462
Investments		38,876	23,500	16,272	78,647
Property and equipment				3,413	3,413
Intangible assets				2,077	2,077
Total assets	**76,052**	**38,876**	**23,500**	**21,803**	**160,231**
Accounts payable and accruals	12,549				12,549
Dividend payable					-
Zakat and income tax payable	1,206				1,206
Employees terminal benefits				5,371	5,371
Total Liabilities	**13,755**	**-**	**-**	**5,371**	**19,126**
Liquidity Gap	**62,297**	**38,876**	**23,500**	**16,432**	
Cumulative Gap	**62,297**	**101,173**	**124,673**	**141,1045**	

The table is represented by a Shareholder's equity of SAR 141.105 Mn as at end of 2015. In addition to Monitoring the Liquidity Gap and Cumulative Gap, Audi Capital also monitors the ratio "Available Liquidity / Monthly Operating Expenses" and this figure is communicated to the Board of Directors. The Company set a minimum Risk Appetite and limit to be at least of 3x. As at 31 December 2015, this ratio at Audi Capital is equal to 10.2x (accounting for cash in hand/at bank/ Short-term time deposits).

Overall Recommendations Summarized:

Recommendations for Kuwait's Investment Sector	
Consolidate the Investment Sector	1. Design a viable framework for the purpose of mergers and acquisitions among investment companies 2. Closure of non-viable investment companies/funds and "zombie investment companies" 3. Consolidate the investment sector using Union of Investment Companies as a representative trade body. Based on the study conducted the following are the recommendations for each tier of companies **Financially Sound Companies (Tier 1)** 1. Seek advisory from financial experts to identify possible takeover targets or viable units/distressed assets as they already have the adequate resources, if applicable 2. Acquire or merge with tier 2 and 3 companies in order to enlarge market presence 3. Acquire the assistance of financial experts to restructure debt, improve liquidity and focus on operations 4. Provision of soft loans in order to ease acquisitions and/or expanding their operations 5. Review of G&A expenses, if applicable **Recession Survivors Companies (Tier 2)** 1. Consider debt restructuring, if applicable 2. Creation of a Troubled Asset Relief Program (TARP) modelled fund to buy illiquid assets that could be turned around 3. Review of G&A expenses, if applicable **In Distress Companies (Tier 3)** 1. Compartmentalize business units of the company that can be salvaged or scaled up to be sold to tier 1 companies, if applicable 2. Create a repository of minority stake investments carried across multiple companies that could be acquired by interested parties 3. Forced orderly wind up, if applicable 4. Review of G&A expenses, if applicable
Raise Minimum Capital	1. Increase the minimum capital required to acquire/retain the investment license from KD 15 Mn to **KD 25 Mn** will help increase the size of the financial buffer and quality of the loss bearing equity enabling a stronger financial system. 2. Enables recruiting talent and to comply with significant corporate governance requirements under CMA
Debt Promotion & Product Innovation	1. Promote issuance of **debt instruments** including Sukuk to create a smooth alternative method to raise funds and support capable companies to contribute in managing issues. 2. Promote securitization as a means to develop the debt instruments to enhance liquidity 3. Consider forming Real Estate Investment Trusts to widen the market 4. Improve technical innovation for the investment companies in Kuwait

Government	1. Improve the current platform that enables to quickly device and implement relief programs such as TARP in an event of a crisis 2. Provide private sector with more opportunities and responsibility to contribute to reduce reliance on the government 3. Facilitate the private sector to take on state owned enterprises that will ensure adequate return on capital by privatizing the same 4. Build strong, coherent, and long-term frameworks, including binding legislation and to increase the influence of the regulatory agencies to help 5. Develop a fair competitive environment, establish clear distinction in roles and jurisdiction for all regulatory bodies 6. Improve the capabilities of the national citizens along with improved employment opportunities.
Central Bank of Kuwait	1. Establish clear and well defined roles with increased accountability 2. Set-up a Financial Reporting Review to enhance quality of audit of the company and at regulatory level 3. Establish saving structure for individuals and encourage saving to create opportunities for institutional investors
Capital Markets Authority	1. Apply a phased approach for the introduction of corporate governance for better compliance and applicability 2. Create categories for companies that fall under CMA with varying disclosure requirement for effective applicability rather than one size fits all approach 3. Create a system where there is a representative at the regulatory level for every company who acts as a one-point reference for enhancing efficiency 4. Ensure substance over form for compliance. As an example appointing an investor relations officer does not translate into information being shared 5. Introduction of regulations and procedures regarding Qualified Foreign Financial Institutions to enhance market performance 6. Raise levels of disclosure, enhance efforts to improve monitoring, strengthen compliance and enforce strict penalties on offenders 7. Improve investment performance disclosure standard by applying Global Investment Performance Standards for all investment companies that maintain funds or manage investments for others 8. Improve speed of procedures in gathering evidence and investigating into violations and methods of disseminating information through written communication rather than oral communication 9. Streamline certain permitted activities to be carried by registered person only 10. Encourage corporate governance research efforts by companies 11. CMA should increase efforts to educate investors, improve ease of access to reliable information and spread awareness regarding corporate governance 12. Introduction of “Workplace Quality Index” to promote the appeal of securities market to job seekers and lift its capacity to recruit qualified human resources 13. Focus on subsequent control and speed in responding to the requirements of companies

Kuwait Stock Exchange	1. Improve prevailing listing rules and requirements to include a focus on governance 2. Specific portion of IPOs should be allocated to Qualified Institutional Buyers to grow Institutional Investors in Kuwait 3. Encourage qualified private companies to list their shares in the market 4. Conduct awareness sessions to promote listing 5. Improve channels and ways of dissemination of information by the agencies towards all market participants 6. Improve the efficiency of the market making process and support the issuance of the new investment instruments
Company Level	1. Development of an Investment directive where the focus needs to be on long term goals that seeks to avoid unnecessary risk and volatility 2. Draw up a clear cut investment values that are managed and supported by the investment team where the focus would be on desired liquidity, diversification requirements, sector appetite and management style 3. Create investment policy that includes specific asset allocation and setting up investment structure 4. Risk management to be considered as a partner for investment 5. Introduce self-monitoring at the company level by registered persons to enhance investor protection 6. Improve the quality of all disclosures to enhance transparency for financial statements 7. Introduce performance monitoring committee at the company level to enhance performance levels through monitoring key performance indicators 8. Ensure board members with highest character and integrity along with experience and understanding of strategy and policy setting are chosen to enhance efficiency. 9. Increase board independence by hiring more independent board members 10. Ensure board audit committee is made responsible to oversee all audit and risk management functions 11. Set up and implement innovative remuneration packages to ensure CEO are driven by long term strategies 12. Strengthen investor confidence by improving the competency and eligibility standard of the registered persons
Macro-Level Reforms	1. Adopt a fair and transparent tax system to continue structural reform 2. Rationalize subsidies 3. Gradually reform electricity, water and energy subsidy process 4. Standardize the wage structure in the public sector 5. Contain public sector employment and future wage growth 6. Reassess the demographics, especially the peripheral ones 7. Infrastructure development with the rehabilitation of the ports, the establishment of more free trade zones, business tourism, exhibitions and the development of non-oil sectors to diversify sources of income and employment

Introduction

Analyzing the six-year period, before the financial crisis, Kuwait investment sector witnessed 24.8% growth in assets between FY 2002 – FY 2008 and the number of investment companies grew from 38 to 99 during the same period. The global financial crisis led to stagnation of growth worldwide and a majority of the investment companies within Kuwait felt its repercussions as well. Along with the investment sector, real estate companies in Kuwait were also heavily impacted as global real estate prices plummeted.

In the wake of the financial crisis, the government of Kuwait had enacted the Financial Stability Law (Law number 2/2009) and a law guaranteeing all deposits of local banks (Law number 30/2008) to aid the investment/financial sector. However, most of the troubled investment companies did not avail this benefit, except a few, for one reason or another. Further, Kuwait's investment sector post crisis has been under considerable distress as it had relied on short term debt to fund long term illiquid assets. The investment companies battled with issues such as asset-liability mismatches and unprofitable business models and pushed to reschedule the debt. On the other side, banks were also impacted and hence lack of new funding resulted in a liquidity squeeze. Given the issues faced by the investment sector the banks agreed to extend credit lines and refused to avoid booking losses associated with debt default. These agreements delayed many investment companies from bankruptcy thus leading to capital depletion and creation of zombie companies. Although, a few companies have restructured through strategies that include 'haircut', debt to equity and debt to asset swaps, Kuwait's investment sector post-crisis has not yet been able to recuperate from the ramification of the financial crisis.

RSM has prepared this study in line with Union Investment Companies' (UIC) requirement to analyze the investment sector thoroughly and to seek solutions to help revitalize the investment sector. This project aims to:

1. Examine the current status of investment companies' financial positions
2. Examining current laws and regulations that concern investment banking activities
3. Exploring the ways and means to facilitate and enhance the enforcement of the stability degree number 30/2008 and 2/2009
4. Proposing workable solutions for the troubled investment companies including an assessment of the prospects for product development and innovation in the investment sector

Methodology

The methodology of the study is as follows:

1. **Macro Economy:**
   The macroeconomic study was based on research of macroeconomic indications of Kuwait focused particularly on the financial/investment sector of Kuwait. Moreover, the contribution of financial/investment sector across the GCC was also analyzed to understand the contribution of the financial/investment sector to the GDP of other countries that are similar to Kuwait in terms of a single natural resource dependent.
   A study at a macro level of the investment sector of Kuwait was conducted to attain tacit knowledge. Kuwait's investment sector in this context is the list of companies that the Central Bank of Kuwait classifies as Investment Companies as of September 2015. The data was examined through three key time frames around the 2008 global financial crisis namely pre crisis, during the crisis and post crisis. The data amassed included number of companies within the investment sector, a breakdown of the assets, a breakdown of liabilities for conventional investment companies and Sharia'a compliant investment companies. Further, assets under management (AUM) were also analyzed under two sections, namely portfolio investments and investment funds, for conventional and Sharia'a investment companies separately. Kuwait Foreign Direct Investment (FDI) was studied in order to recognize where Kuwait's position on the FDI market in terms of inflows and outflows. Kuwait's FDI was then compared to the GCC countries to find paucities. Moreover, the study included an analysis of the new FDI Law and its impacts.
   The study included a critical analysis to understand the key ingredients for successful capital markets to observe Kuwait's deficiencies and understand the requirements to bring about the necessary changes. It also includes case study on debt market that depicts its importance.
   The study also encompasses the requirements that need to be satisfied to bridge the gap to aid Kuwait's transition from "Frontier market 'status to' "Emerging market" status and benefits that amass from it.

2. **Micro Economy:**
   The analysis was conducted to assess the performance of the investment sector in Kuwait in FY 2007 (pre-crisis), FY 2008 (during crisis), FY 2010 (post-crisis) and FY 2013 & 2014 (the present). The sample size of the analysis was based on 36 investment companies extracted from CBK's list of 82 investment companies as of September 2015. It comprised of 29 listed companies and 7 unlisted companies. The remaining investment companies were not included in the analysis as their financial statements were not available even after due efforts were undertaken by UIC and RSM to procure the information.
   Financial statements were amassed from either Kuwait Stock Exchange or their respective company websites. Analysis of each company was conducted for the time frame mentioned above to fully comprehend the impact of the crisis on the investment sector in Kuwait. Once collated, the data was standardized in an effort to ease comparison. Further, six different graphs were constructed for each company for a better representation of the data. In addition, several ratios were calculated to grasp a deeper understanding of the data. Also, a year-on-year change was compared and the critical reasons were highlighted.
   The analysis for each individual investment company was conducted on five levels:
   1. **Quick Facts:** includes several facts about the analyzed companies.
   2. **Balance Sheet** Analysis: includes the analysis of balance sheet components.
   3. **Income Statement Analysis:** includes the analysis of income statement components.
   4. **Ratio Analysis:** includes the analysis of the calculated ratios.
   5. **Key Financial Data:** includes the constructed graphs.

   Further, the analyzed investment companies that undertook debt restructuring were identified and a table was assembled to highlight the process of debt restructuring. To enhance the understanding of the debt restructuring process, three case studies of the same were presented in a timeline format and key highlights were noted.
   The data from each investment company was compiled and analyzed from bird's eye view perspective. The analysis included a comparison of the investment sector's performance based on the same time frame mentioned above. Further, the companies were grouped into three different tiers based on a set of selected factors such as assets under management, total assets, total equity, return on assets, leverage ratio, share capital and incorporation date. Each company was assigned risk points based on each factor in comparison to the other companies in the data set.

Moreover, each risk factor was allocated weighting based on the relevance to the sector. These factors were then aggregated to arrive at the final ranking. Finally, the detailed analysis was used to aid in formulating the list of recommendations and opinions that were grouped based on the company tiers.

3. **Crises:**

The study involved a total of ten crises, two Kuwait related crises and eight international related crises. A thorough research of the same was conducted to completely understand each individual crisis. The study covers each crisis under the following key headings: background, impact, solutions implemented and consequences. Given the tacit knowledge gained from the analysis following, resonance to Kuwait was drawn with the view to address such crises should occur in the future.

4. **Survey:**

The design of the survey and identification of reasons/indicators were a result of meetings/ discussions/ consultations with CEOs/CFOs/CCOs and other financial experts in the investment industry. These consultations contributed importantly to the understanding of the views of financial supervisors, and the private sector. They also provided an opportunity to improve a list of indicators to be surveyed and learn more about their uses and potential reliability.

The survey questionnaire was prepared in two parts namely, the General section and Tackling Crisis section. Both the parts were answered by financial experts / management within the investment sector. The format of the Questionnaire shared with respondents is annexed herewith.

The "General" part of the survey questionnaire is intended to address various aspects of the company such as business segments, organizational structure, corporate governance, board of directors' details and company policies. The responses from this part were used to understand the entire gambit of services that investment companies offer, Unique Selling Propositions that they provide (if any), governance structure followed, independence of the board, transparency and adequacy of reporting lines for compliance.

The "Tackling Crisis" part of the survey questionnaire is regarding the impact of the financial global crisis of 2008 on Kuwait and the difficulties faced by the investment sector in Kuwait. Further, it explores the necessary measures that need to be taken by companies and the necessary role of the government during the crisis. The responses from this part was used to understand the impact of the crisis on the market, the weakness in the market structure as well as government regulations and the avenues that will aid market's growth. The responses on both parts were gathered, presented and analyzed, to understand reasons for the present fragile status of the investment sector and measures to revitalize the same.

BOOK 1 – CURRENT STATUS

A - MACRO ECONOMIC ANALYSIS

Contents

Table of Figures

Kuwait Macroeconomic Outlook

Kuwait's current macroeconomic outlook is expected to be under pressure as it is highly dependent on oil. Given falling oil revenues, budgetary pressures will be accentuated by the increase in welfare payments, subsidies and social security obligations. However, Kuwait has built large fiscal surpluses which have helped it weather the current storm.

In order for Kuwait to grow, its development plan has to be effectively implemented. Although, there is a marked improvement in the relationship of the administration with the parliament bodies as noted by IMF. The new public private partnership law will also aid in the execution of the development plan. Currently the implementation is under monthly monitoring at the cabinet level and periodic review by the parliament. Moreover, payments to contractors are being monitored in order to avoid delays.

The government is expected to remain in fiscal deficit over the medium term as capital spending is expected to increase by 20% in FY 2016 reflecting the acceleration of mega projects being implemented and is expected to grow by 4% annually over the medium term while it still adheres to the fiscal rule of transferring 10% of total revenue to the Future Generation Fund (FGF) and retaining investment income in the fund.

Kuwait has awarded a number of contracts in the oil sector to upgrade fuel and to increase refining capacity. Implementation of these projects has already been initiated specifically in the power and health care sectors. IMF estimates growth in non-oil sector in FY 2016 to be low and increasing to 4% in the medium term as the impact of the investment takes place. The decline in oil prices weighs on confidence and negatively impacts private consumption and investment. However, high government buffers, strong and liquid banking system and a profitable corporate sector can provide an enabling environment for growth.

Existing financial buffers can be affected adversely in the event of a further decline in oil prices. However, authorities in Kuwait have indicated their commitment to maintain capital spending in the budget while eliminating redundant current expenditure, to prevent stagnation of growth.

Kuwait's population was circa 4.1 Mn in FY 2014. (Figure 1). The median age of the Kuwaiti population is 29 years (2014 est.) with the 25-54 years age group accounting for nearly 52%. The Kuwaiti national population's median age is in the range of 20-24 years whereas the median age of the non-Kuwaiti population is in the range of 30-34 years.

Kuwaiti national's median age is 20 – 24 years

Oil and Gas has historically been the largest contributor to Kuwait's GDP contributing 59% on an average between 2009 and 2013 to amount to KD 31 Bn in FY 2013. Kuwait's non-oil sector has witnessed growth post crisis to contribute 41%, on an average between 2009 and 2013, recording KD 18 Bn in FY 2013 (Figure 1). Kuwait's GDP witnessed the biggest fall of 23% within the last decade in FY 2009 post the housing crisis. However, GDP witnessed an increase to record KD 49.9 Bn in FY 2013.

Increasing welfare payments, subsidies and social security obligations is expected to place budgetary pressures further accentuated by the falling oil revenues. Initiatives are underway to augment liquidity/revenue sources, possibly through taxes, subsidy rationalization and various other measures.

Inflation has remained low despite the depreciating KD, in part because of lower economic activity.

The Central Bank of Kuwait ("CBK") continues its accommodative stance since the crisis and has maintained the Discount Rate at 2% since October 2012. Weighted interest rates on deposits have come down to around 1.55% while that on loans are a tad below 5% (Figure 1). Coinciding with the recent US Fed rate revision, CBK has increased the discount to 2.5%.

The 2008 contagion resulted in a global spike in commodity prices but otherwise CPI inflation has been steady at around 4%, close to its historical average. Money Supply, as measured by M2 and M3, has shown steady growth over the last 10 years with the last 3 years averaging at 9% growth (Figure 2).

The Kuwait Stock Market has been the biggest casualty of the 2008 crisis with a large drop in Market Value and volume. While global markets have picked up and some have even made all-time highs, the GCC markets continue to be sluggish. Further, Kuwait market has underperformed the regional indices.

Investors are reluctant to deploy funds to further economic activity despite low interest environment as is evident by high money supply M2 & M3

Value of traded shares peaked in FY 2007 at KD 37 billion however after the global crisis the value of traded shares have declined to KD 6.1 billion in FY 2014 and not recovered to pre-crisis levels. Similarly, the Kuwait Price Index also peaked in FY 2007 at 12.6 thousand and declined after crisis to 7.8 thousand in FY 2008.' Even 7 years after the crisis the KSE continues to witness dwindling volumes (Figure 2).

Challenges faced by Kuwait's Macro economy are as follows:

1. Augmenting revenue sources
2. Undiversified economy
3. Lower oil prices

Depiction of Kuwait's Macroeconomic Outlook

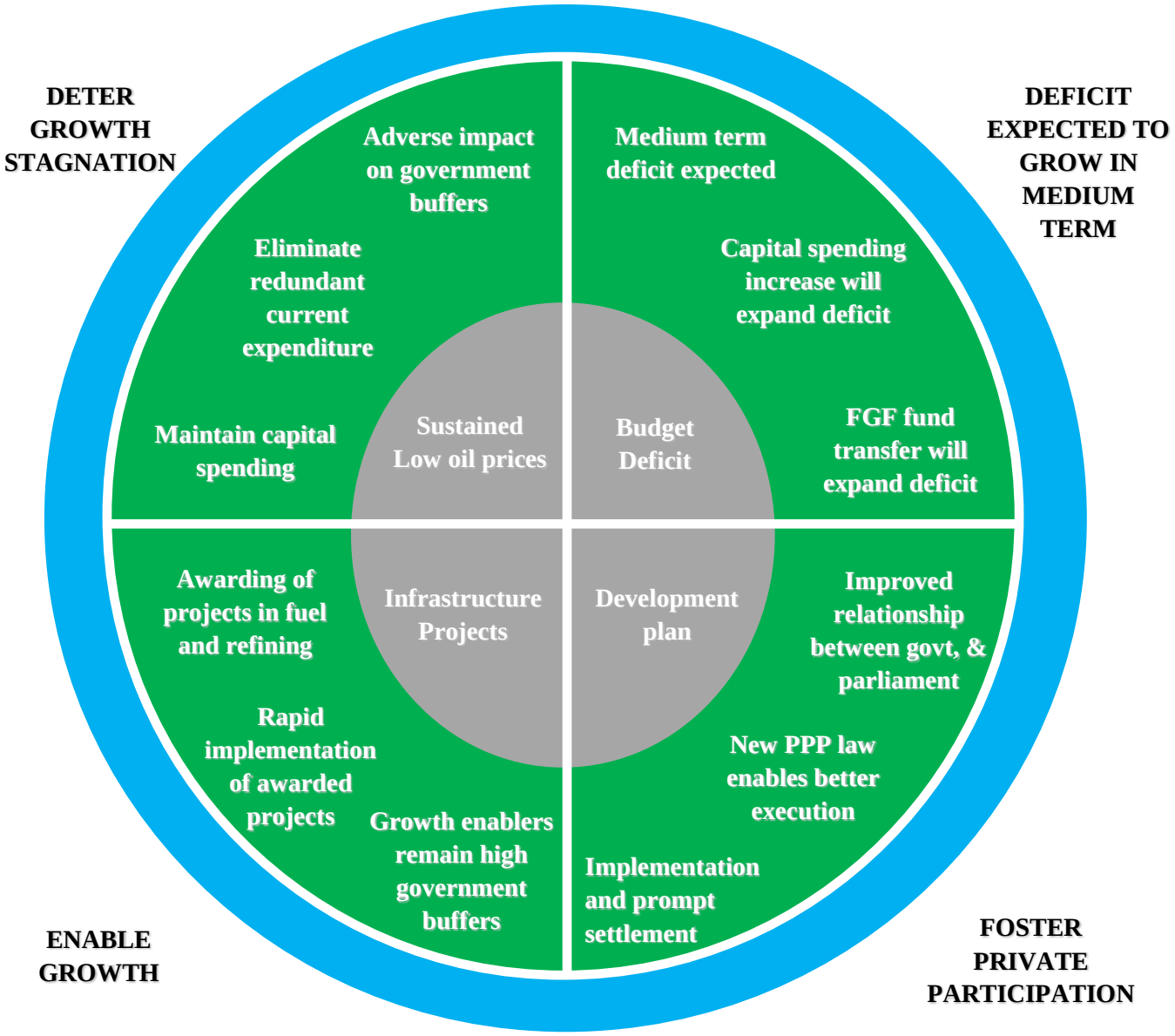
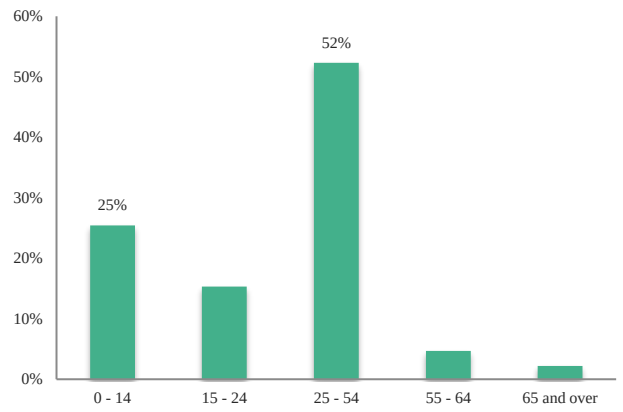


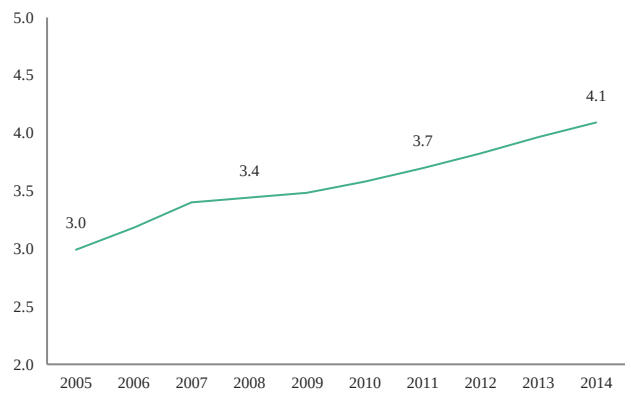
Figure 1: Macro Research

Population Demographics (Age)



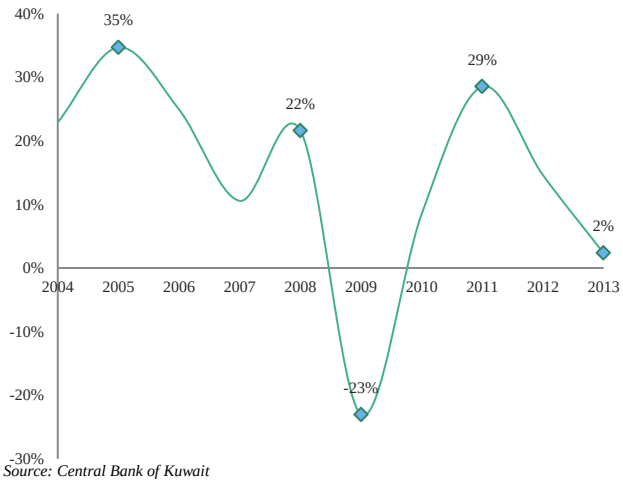
Source: Public Authority for Civil Information

Kuwait Population (Millions)



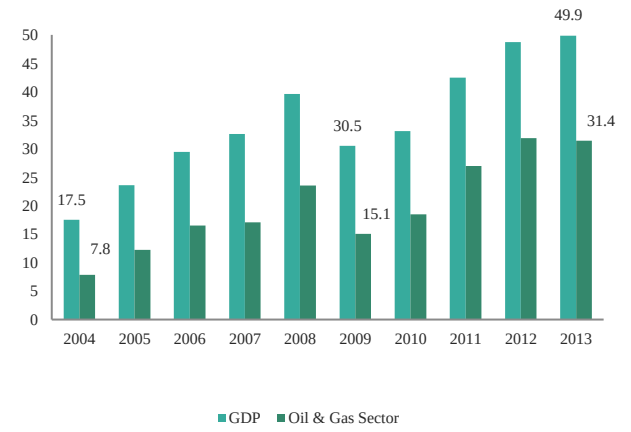
Source: Public Authority for Civil Information

GDP Growth Trend

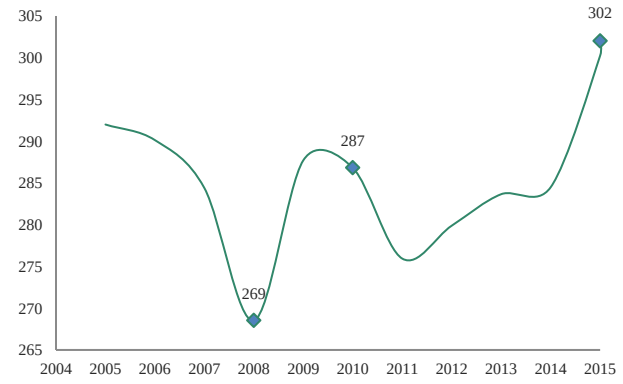


Source: Central Bank of Kuwait

GDP at Market Value (KD Billion)

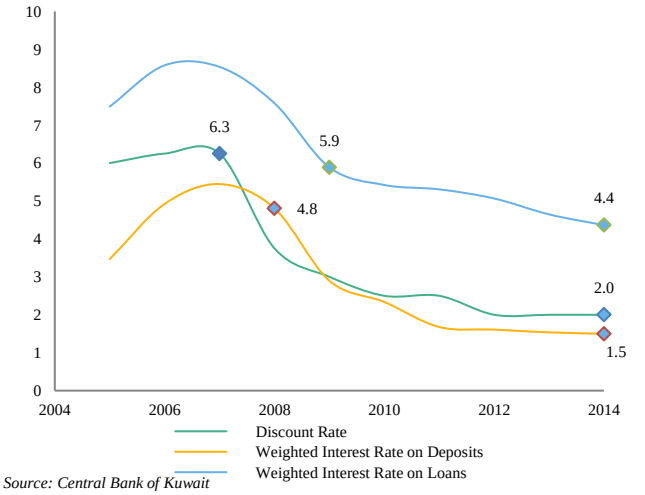


Average Exchange Rate of USD against KD (Fils)



Source: Oanda

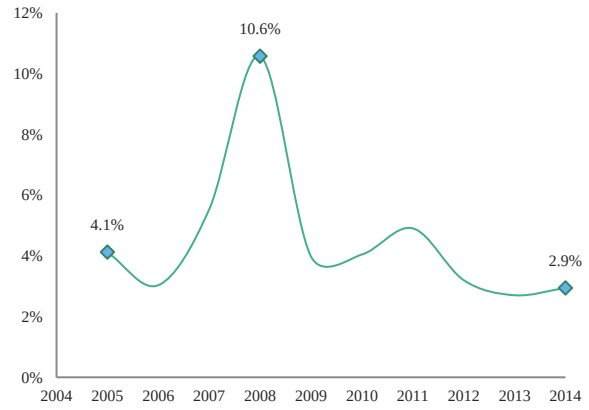
Key Interest Rates (Percent per Annum)



Source: Central Bank of Kuwait

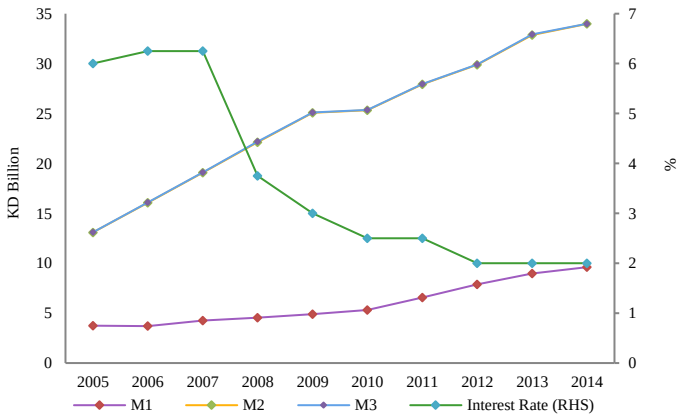
Figure 2: Macro Research

Consumer Price Index



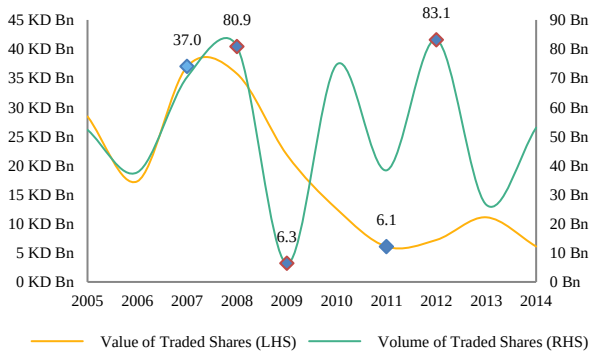
Source: Central Bank of Kuwait

Money Supply and Interest Rates



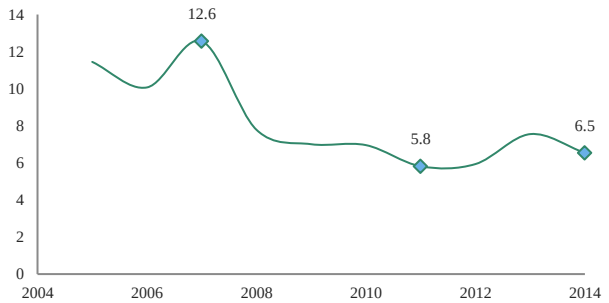
Source: Central Bank of Kuwait

KSE Trade Volume



Source: Central Bank of Kuwait

KSE Price Index (000's)



Source: Central Bank of Kuwait

SWOT Analysis

Strength

- World's sixth largest proven oil reserve
- High per capita Income and GDP
- High literacy and education
- Small population
- Low unemployment
- Large Wealth Fund
- Robust banking sector
- Low external obligations

Weakness

- High dependence on oil – 90% of total exports.
- Undiversified economy – slow growth in non-oil sector. Kuwait's economy is the least diversified amongst the GCC countries.
- Low enforcement of regulations
- Low foreign direct investment in Kuwait
- Lack of domestic investment opportunities leading to outflow of excess savings
- Combative political system leading to slow reforms and policy implementations
- Low ranking in business climate and competitiveness
- Lack of qualified staff at the executive levels and at the regulator level
- Increasing Government burden due to pension obligations of the aging

Opportunity

- Promising list of projects in the pipeline
- Expansionary fiscal policy
- Greater government spending
- Development in the FDI law to facilitate licensing and incorporation procedures
- Increased transparency as per the new proposed CMA bylaws

Threat

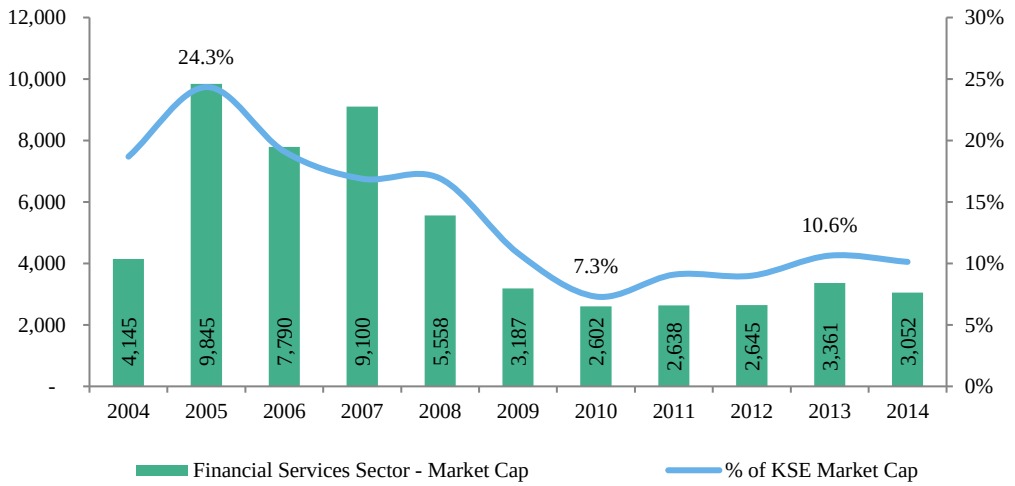
- Long term forecast for oil prices are low
- Real estate prices are at an all-time high
- Located in an area with close proximity to geo political tensions
- Flight of liquidity to safe havens
- Combative political system leading to slow reforms and policy implementations
- Low ranking in business climate and competitiveness

Financial Services Sector (Figure 3)

1. As at Sept 2015, Kuwait's investment and finance sectors market capitalization stood at USD 3.2 Bn, accounting for 3.9% of the total stock exchange. Saudi Arabia's investment and finance sectors market capitalization stood at USD 17.5 Bn, largest within the GCC. Additionally, the Bahrain Bourse Exchange witnessed the highest contribution at 5.5% (investment and finance sectors market capitalization as a percentage of total stock exchanges) within the GCC region.
2. Between FY 2012 and FY 2013, Kuwait's financial institutions contribution to total GDP increased by 7% to reach USD 3.1 Bn, a 6.3% contribution to total GDP.
3. In 2014, Kuwait's financial services sector contribution to KSE market capitalization stood at USD 3.1 Bn, accounting for 10.1% of the total KSE market capitalization and a decrease of 9% between FY 2013 and FY 2014. In FY 2005, pre-crisis, the financial services sector contribution was at its peak at 24.3% while the lowest contribution was witnessed in FY 2010 at 7.3%.

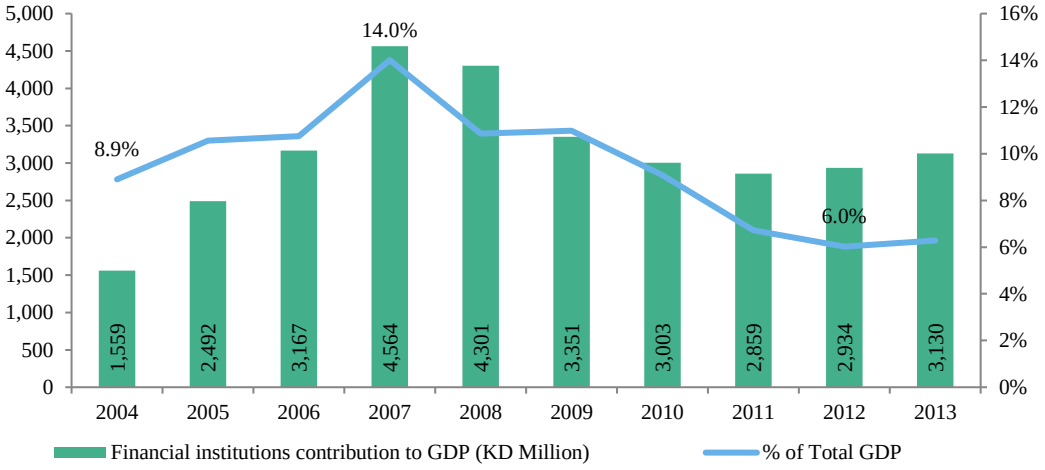
Figure 3: Financial Services Sector

Financial services sector contribution to KSE Market Capitalization (KD 000's)



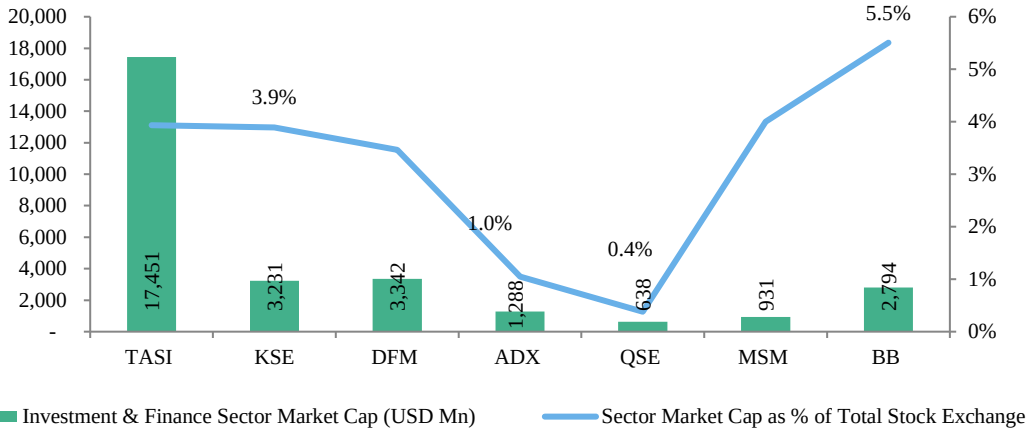
Source: Kuwait Stock Exchange KAMCO

Financial Institution contribution to GDP (KD Million)



Source: Kuwait Stock Exchange Central Bank of Kuwait

Financial services sector contribution to market capitalization GCC - 30th Sept 2015 (KD 000's)



Source: Tadawul, Kuwait Stock Exchange, Dubai Financial Market, Abu Dhabi Securities Exchange, Qatar Stock Exchange, Muscat Securities Market, Bahrain Bourse

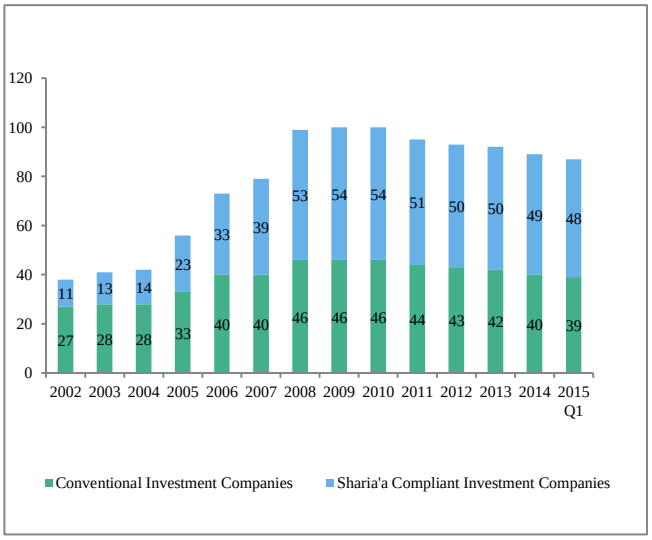
Kuwait Investment Sector

Introduction and limitations

The following study was based on data sourced from the Central Bank of Kuwait, which used to supervise all investment companies in Kuwait. It is important to note that post the advent of the Capital Markets Authority [through Law (7) of 2010] and the Regulation of the Securities Activities [CMA Law], multiple companies rescinded their financing license, and opted out from the supervision of the Central Bank of Kuwait. This is in line with the Figure 4 (Number of Investment companies) that indicates a peak of 100 companies in both FY 2009 and FY 2010, which then reduced to 95 in 2011 and just 87 companies by Q1 2015. By Sep 2015, this was further down to 82 companies. Hence data post FY 2010 could exclude key companies, data for which are not available as the CMA does not publish such information. A list of companies that are no longer under CBK supervision and list of companies that were incorporated post FY 2010 and are under CBK purview is indicated as part of Annexure. Further this does not include holding companies that could hold major investments, but are not classified as investment companies.

Kuwait's investment companies have been divided into conventional investment companies and Sharia'a compliant investment companies. In FY 2002, 38 companies were categorized as investment companies by Central Bank of Kuwait out of which 71% were conventional investment companies and remaining as Sharia'a compliant investment companies. During the years between FY 2002 and FY 2008, Sharia'a compliant investment companies grew at an average rate of 31.3% as compared to 9.6% for conventional investment companies. Further, between FY 2008 and Q1 2015 number of companies fell at a faster average rate for conventional investment as compared to Sharia'a compliant investment companies.

In Q1 2015, Kuwait had 48 Sharia'a compliant investment companies and 39 conventional investment companies. Of these, only 29 companies are listed and only 7 unlisted companies disclose at least FY 2014 audit financials on their website.



Source: Central Bank of Kuwait

Assets: Investment Company

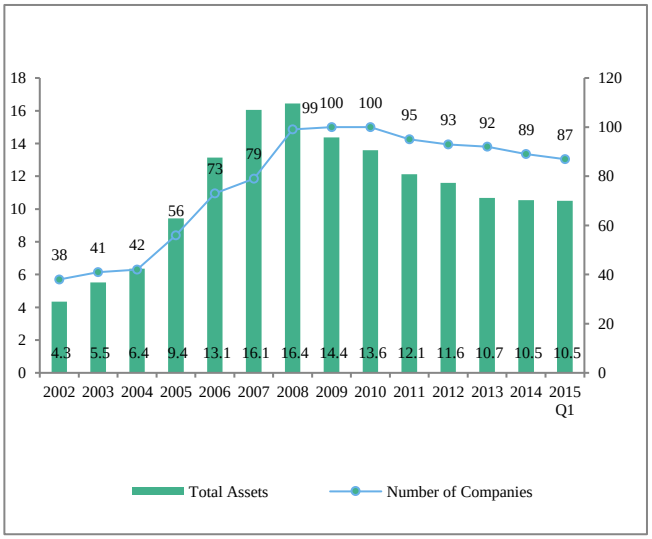
1. The assets of the investment sector witnessed strong growth between FY 2002 and FY 2007 on account of the liquidity available and increase in investment companies within the market

2. In FY 2008, an additional 20 companies came under the supervision of the CBK as investment companies; however the overall increase (KD 400 Mn) to the asset size was just marginal.

3. The average size of investment companies reached its zenith during FY 2007 when it reached KD 203.27 Mn. However it immediately fell to KD 166.06 in FY 2008, most probably due to the 25% increase in investment companies during that year. There was only a slight increase in overall assets during FY 2008.

4. However FY 2009, witnessed the largest fall in overall assets in the sector, with a fall of over KD 2 Bn in overall asset value in the sector.

5. The average size per investment company has steadily fallen from FY 2008 till FY 2013, where it reached an average size of KD 116.16 Mn. However since then it has slightly increased to KD 120.65 by Q1 2015.



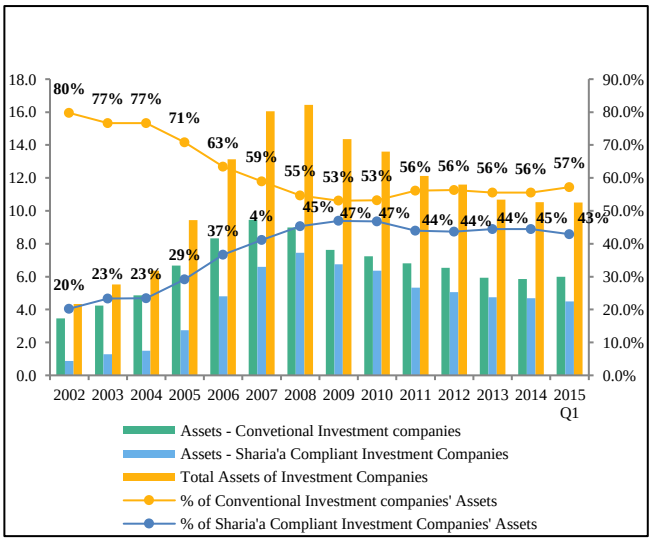
Source: Central Bank of Kuwait

Assets : Total assets of all investment companies

1. The assets of the investment sector witnessed strong growth between FY 2002 and FY 2008 on account of the liquidity available within the market.

2. The assets of the Sharia investment companies witnessed an average growth rate of 45% as compared to the assets of the conventional investment companies which witnessed an average growth of 18% between FY 2002 and FY 2008.

3. Lack of confidence in the markets post the crisis led to further decline in asset values. Furthermore, the assets of the conventional investment companies declined at a lower average rate (5%) as compared to the assets of the Sharia'a compliant investment companies (7%) between FY 2009 and Q1 2015.



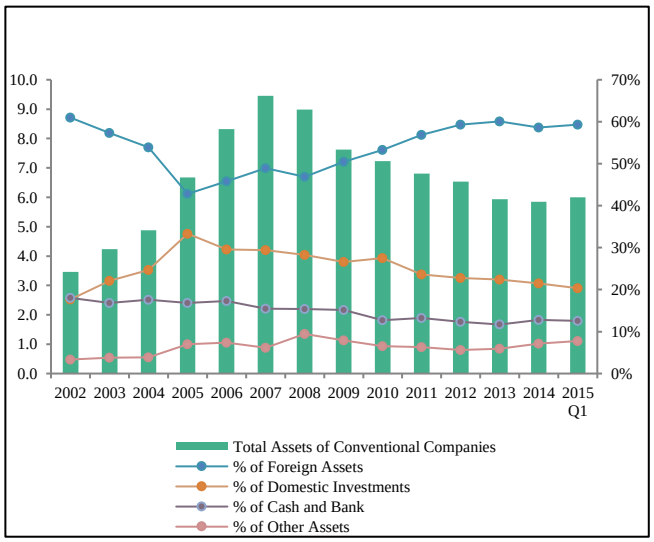
Source: Central Bank of Kuwait

Assets: Conventional Investment Company

1. The primary component of assets for conventional investment companies is foreign assets which witnessed growth at a CAGR of 12.2% between FY 2002 and FY 2008 on account of inflated global asset prices peaking in FY 2007. From a high of KD 4.6 Bn in FY 2007, exposure to foreign assets has reduced to KD 3.4 Bn by FY 2014. However as a % of assets, foreign assets have increased to 59% of overall assets in FY 2014, from 49% in FY 2007.

2. Domestic investments primarily comprises of financial and non-financial investments with financial investments being the core component comprising of an average of 92% between FY 2002 and Q1 2015. Financial investments grew at a CAGR of 25.5% between FY 2002 and FY 2008 to reach KD 2.5 Bn in overall assets. Most of the increased exposure to foreign assets is at the cost of domestic assets that witnessed a decline in overall composition from 29% in FY 2007 to 20% in FY 2014.

3. Cash and bank comprises of cash and balances with CBK, local banks and credit facility with residents, witnessed growth at a CAGR of 14.2% between FY 2002 and FY 2008 to reach 1.4 Bn overall. However overall the composition of these assets declined from 15.4% in FY 2008 to 12.8% in FY 2014. Overall exposure declined to KD 0.7 Bn in FY 2014.



Source: Central Bank of Kuwait

Assets : Sharia'a Compliant Investment Companies

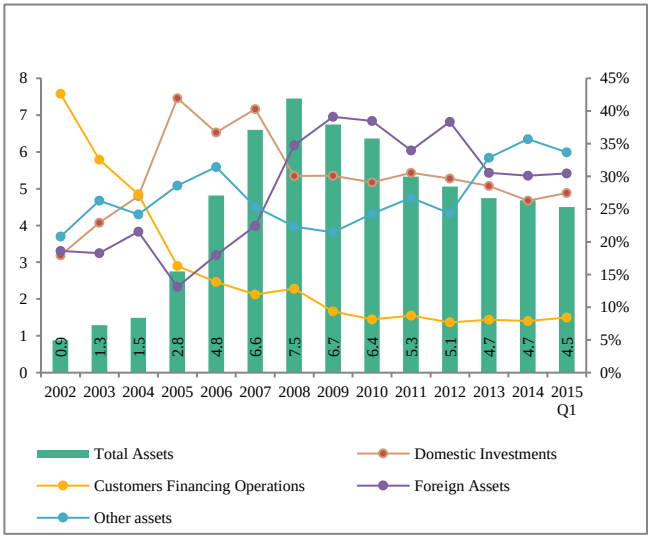
1. In FY 2002, Customer financing operations was the biggest contributor towards Sharia'a assets however it has been on a steady decline and contributed the least by Q1 2015.

2. Domestic investments primarily comprises of financial and non-financial investments. In FY 2002, financial investments comprised of only 42% of total domestic investments however financial investments witnessed faster growth than non-financial investments. Domestic investments fell during the 2008 crises, before which it was the single largest component from FY 2005 to FY 2007, where it reached a high of 2.7 Bn.

3. Foreign assets witnessed strong growth at a CAGR of 58.5% between FY 2002 and FY 2008. Post crisis, foreign assets witnessed a heavy drop from KD 2.6 Bn to KD 1.4 Bn in Q1 2015. However it comprised the biggest component of assets from FY 2008 to FY 2012.

4. Other assets include cash assets and balances with bank and other financial institutions and other assets. Cash and balances with bank followed the same trajectory as domestic investments as they witnessed

growth pre crisis and decline post crisis. However, other assets have been steadily growing from KD 0.1 Bn in FY 2002 to KD 1.2 Bn in Q1 2015. It forms the highest component of assets from FY 2013



Source: Central Bank of Kuwait

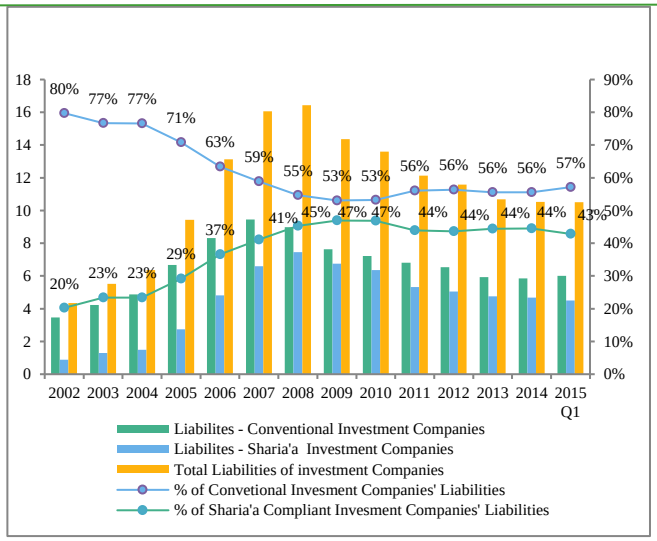
Liabilities: Conventional Investment and Sharia'a Compliant Investment Companies

1. The investment sector witnessed high leveraging as total liabilities increased from KD 4.3Bn in FY 2002 to KD 16.4 Bn in FY 2008 to fund asset growth of the investment companies however equity grew along the same lines; liabilities to total assets remained relatively steady averaging at 67% during the period between FY 2002 and FY 2008.

2. The liabilities of the Sharia investment companies witnessed an average growth rate of 45% as compared to the liabilities of the conventional investment companies which witnessed an average growth of 18% between FY 2002 and FY 2008.

3. During FY 2008, conventional investment companies witnessed a decline in liabilities as compared to their Sharia'a compliant counterparts which witnessed declines a year later.

4. Furthermore, the liabilities of the conventional investment companies declined at a lower average rate (5%) as compared to the liabilities of the Sharia'a compliant investment companies (6%) between FY 2009 and Q1 2015



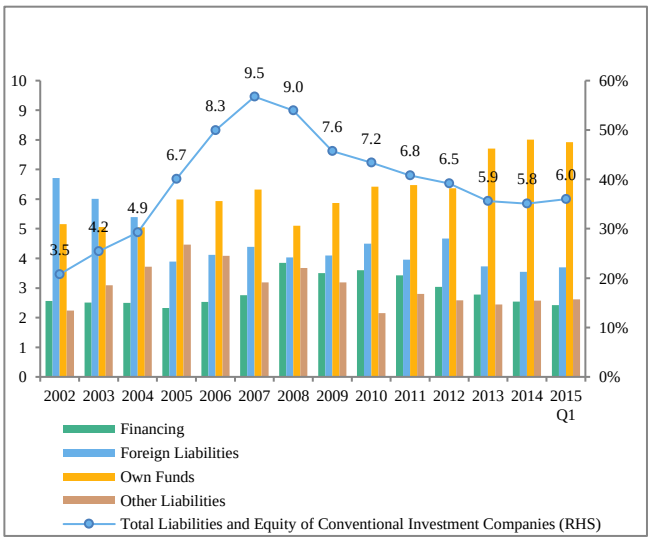
Source: Central Bank of Kuwait

Liabilities: Conventional Investment Companies

1. The primary component of liabilities for conventional investment companies is own funds which witnessed growth at a CAGR of 17% between FY 2002 and FY 2008 peaking in FY 2007 to amount KD 3.6 Bn. Post crisis, own funds have remained relatively stable between FY 2008 and Q1 2015 amounting to KD 2.8 Bn and KD 2.9 Bn respectively. Equity financing comprises 48% of assets compared to 38% just before the financial crisis.

2. Foreign liabilities of conventional investment companies witnessed growth at a CAGR of 7.7% between FY 2002 and FY 2008 to peak in FY 2007 at KD 2.5 Mn as compared to assets which grew at 12.2% over the same period. Post crisis, foreign liabilities declined at an average of 6.6% between to FY 2008 and Q1 2015 to reach lower levels than in FY 2002, in spite of the overall increased asset size. This is the direct result of the capital structure of these companies which increased equity funding composition from 31% in FY 2002 to 48% by Q1 2015.

3. Local financing to conventional investment companies reached its peak in FY 2008 at KD 2.1 Bn from KD 0.5 Bn in FY 2002. This however reduced to KD 0.9 Bn by Q1 2015. Local bank financing peaked in FY 2008 at 23% of overall assets before it was gradually reduced over the next 7 years to 15%.



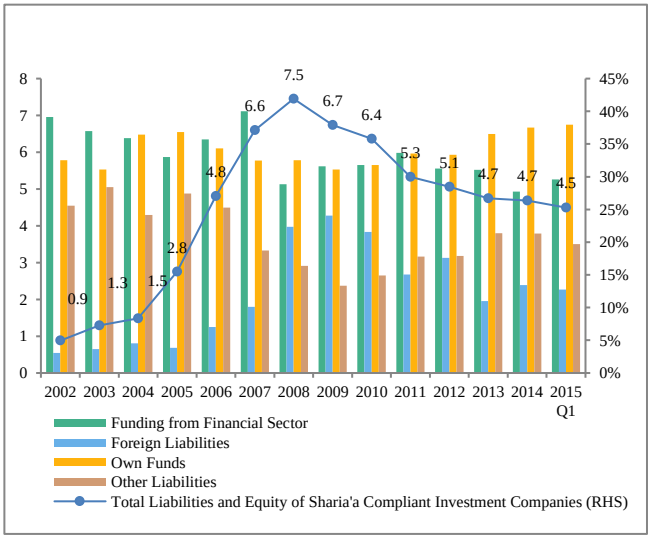
Source: Central Bank of Kuwait

Liabilities: Sharia'a Compliant Investment Companies

1. The primary component of liabilities for Sharia'a investment companies is own funds which witnessed growth at a CAGR of 42.8% between FY 2002 and FY 2008 peaking in FY 2008 to amount to KD 2.4 Bn. Post crisis, own funds declined to amount to KD 1.8 Bn in FY 2011 and since has remained relatively stable. However as a percentage of assets, own funds currently forms the highest percentage at 38%.

2. Funding from the financial sector currently forms the 2nd largest composition of assets at 30%. This is nearly double the local financing witnessed by conventional firms. Funding from the financial sector peaked at KD 2.6 Bn during FY 2007 when it comprised 40% of assets and currently stands at KD 1.3 Bn as of Q1 2015.

3. Foreign liabilities form the third largest funding source, and currently comprise just 13% of assets. At its peak, this composed 24% of overall assets during FY 2009. Overall exposure to foreign liabilities was KD 1.7 Bn during FY 2008 and currently stands at KD 0.6 Bn.



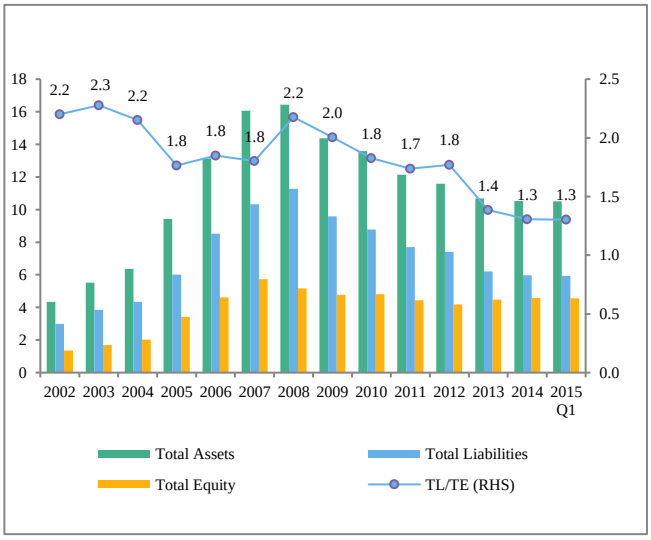
Source: Central Bank of Kuwait

Total Assets vs Liabilities vs Own Funds

1. Overall the investment sector assets reduced by nearly KD 6 Bn from its peak of KD 16.4 Bn in FY 2008 to KD 10.5 Bn in Q1 2015.

2. Total liabilities were reduced the most over the period from its peak of KD 11.3 Bn in FY 2008 to KD 5.9 Bn. Overall the investment sector seems to have witnessed 4 phases in the past 13 years. A highly leveraged period from 2002 to 2004 when the leverage was above 2 as debt was increased at twice the rate that shareholder equity was raised. This was then followed by a phase where equity increased at a higher rate than equity which enables the leverage ratio to be reduced to below 2 during the period FY 2005 to FY 2007. The third phase witnessed an increase in leverage again the sector found difficulty in settling their debts while equity faced write-downs from asset impairment and losses. The final phase that is currently being phased is the result of debt settlement /asset swaps while equity remained more or less the same. This has resulted in a major reduction in leverage to 1.3 as of Q1 2015.

3. The overall shareholder equity invested in this sector reached a post crisis low of KD 4.2 Mn in FY 2012 from a high of KD 5.7 Mn in FY 2007. Shareholder equity has either increased marginally or remained stable from FY 2012 and currently is KD 4.6 Bn as of Q1 2015.



Source: Central Bank of Kuwait

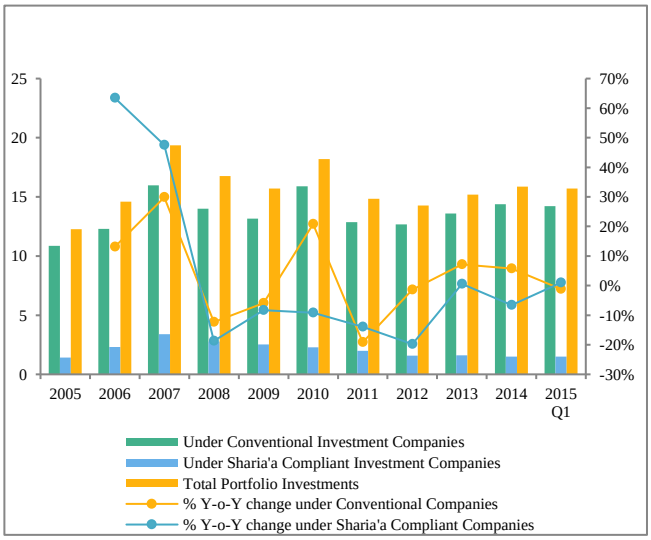
Assets Under Management (AUM): Portfolio Investments

1. Portfolio investments under conventional investment average over 7 times the investments under Sharia'a Compliant companies between 2005 and Q1 2015.

2. Total portfolio Investments grew at a CAGR of 2.5% over the entire period.

3. Portfolio investments under conventional companies witnessed growth pre-crises to peak in 2007 followed by declines in 2008 and 2009. In FY 2010, portfolio investments under conventional companies witnessed a major increase similar to levels reached as of FY 2007. Following which portfolio investments declined again in FY 2011 and FY 2012 before re-rising in FY 2013.

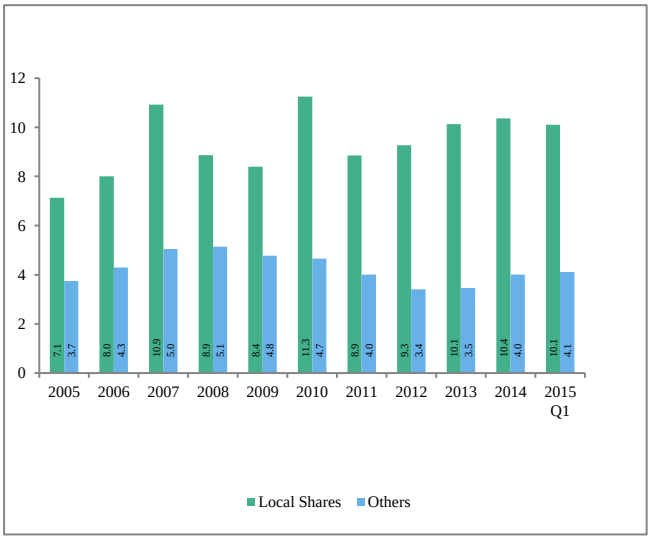
4. Portfolio investments under Sharia'a Compliant investment companies witnessed growth pre crisis to peak in FY 2007 however post crisis they have been declining and unable to recover to similar levels.



Source: Central Bank of Kuwait

AUM: Portfolio Investments: Conventional Investment Companies

1. Local shares investments comprise of an average of 69% of portfolio investment companies under conventional investment companies.
2. Local shares investments witnessed growth pre crisis and declined after the crisis to recover back in FY 2010. In FY 2011, local shares investments of conventional investments companies declined sharply by 21.3%. Post the decline in FY 2011, local shares grew at a CAGR of 5.4% to amount to KD 10.4 Bn in FY 2014.
3. Others include foreign shares, local and foreign bonds, local and foreign investment funds units and other local and foreign investments with the biggest contributors being other local investments and foreign shares at an average of 10% and 8% respectively.
4. Foreign shares witnessed growth pre crises and remained relatively stable in between 2007 and 2010. Further, foreign shares declined at a CAGR of 23% between FY 2011 and FY 2012 to amount to KD 1.1 Bn



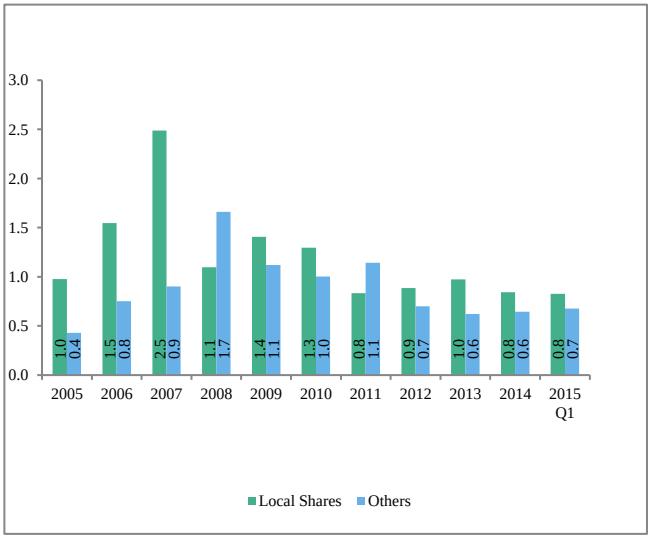
Source: Central Bank of Kuwait

AUM: Portfolio Investments: Sharia'a Compliant Investment Companies

1. Local shares investment comprises of an average of 58% of portfolio investment companies under Sharia'a investment companies.
2. Pre-crisis, local shares investments witnessed growth at a CAGR of 59.5% between FY 2005 and FY 2007 to amount to KD 2.5 Bn. Post the crisis, local shares of Sharia'a complaint investment companies have been constantly declining to amount to KD 0.8 Bn in Q1 2015.

3. Others include foreign shares, local and foreign bonds, local and foreign investment funds units and other local and foreign investments with the biggest contributors being other local investments and foreign shares at an average of 17% and 8% respectively.

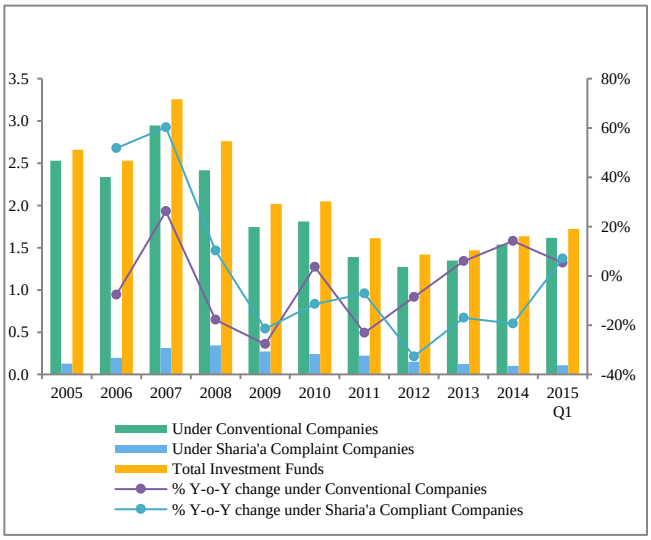
4. Foreign shares witnessed growth pre crises to peak in FY 2008 to amount to KD 0.8 Bn and declined to 0.4 Bn in FY 2009 remained relatively stable in between 2009 and Q1 2015.



Source: Central Bank of Kuwait

AUM: Investment Funds

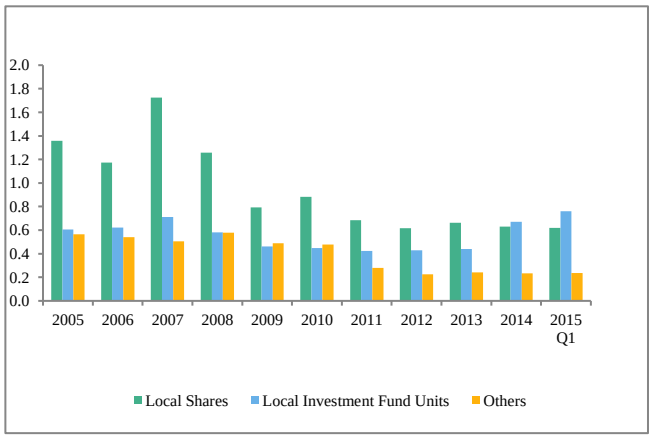
1. Investments funds under conventional investment averages over 11 times as compared to investment funds under Sharia'a Compliant companies between FY 2005 and Q1 2015.
2. Total Investment funds declined at a CAGR of 4.2% over the entire period.
3. Investment funds under conventional companies witnessed growth pre-crises to peak in 2007 to amount to KD 2.9 Bn. However, post 2007, investment funds did not recover from the drop and declined at a CAGR of 7.2% between FY 2007 to Q1 2015.
4. Investments funds under Sharia'a Compliant investment companies witnessed growth pre crisis to peak in FY 2008 however post crisis they have been declining unable to recover to similar levels.



Source: Central Bank of Kuwait

AUM: Investment Funds: Conventional Investment Companies

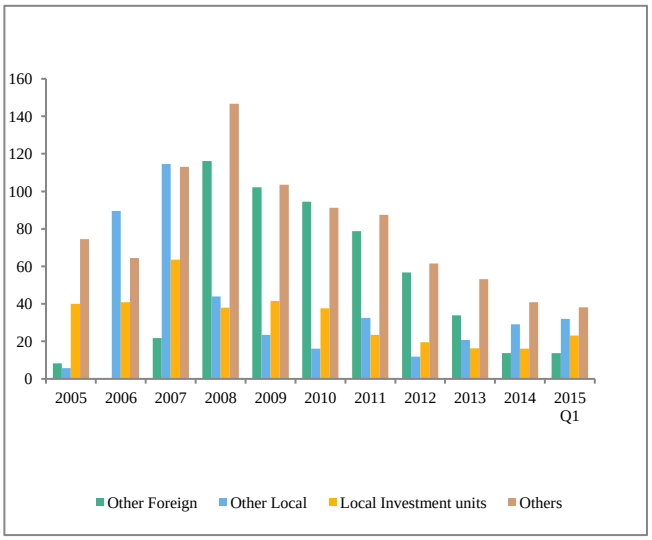
1. Local shares comprise of an average of 49% of portfolio investment companies under conventional investment companies.
2. Local shares witnessed growth pre crisis to peak in FY 2007 at KD 1.7 Bn. Post crisis, local shares have been declining unable to recover to similar levels.
3. Similar to local shares, local investment fund units also witnessed growth pre crisis and fall post crisis. However in FY 2014 and Q1 2015, local investments funds grew 52% and 14% y-o-y.
4. Others include cash balances, foreign shares, local and foreign bonds, foreign investment funds units and other local and foreign investments with the biggest contributors being cash balances at an average of 6%.
5. Cash balance also peaked in FY 2007 to amount to KD 0.2 Bn however post crisis they have declined to amount to KD 0.068Bn in Q1 2015.



Source: Central Bank of Kuwait

AUM: Investment Funds : Sharia'a Compliant Investment Companies

1. In FY 2006, contribution from local shares moved from 36% to 13% for investment funds by Sharia'a compliant investment companies and other local investment moved from 5% to 46% to amount to KD 90 Mn.
2. In FY 2008, contribution from other foreign investment moved from 7% to 34%.to amount to KD 116 Mn.
3. Others include local and foreign shares, and foreign investment funds units, the biggest contributors being other local shares and foreign shares at an average of 16% and 15% respectively.
4. Post 2008, investment funds are declined from KD 345 Mn at a CAGR of 15.4% between 2008 and Q1 2015 to amount to KD 107 Mn.



Source: Central Bank of Kuwait

Kuwait Foreign Direct Investment

Foreign direct investments are investments by foreign investors into the domestic market which can be achieved by setting up a subsidiary or associate company, by acquiring shares of a company or through merger or joint ventures. FDIs should have at least 10% of ownership to have an influence on the company otherwise they are considered indirect foreign investments such as portfolios. Open economies with growth prospects attract more FDIs than closed markets with highly regulated economies.

FDIs benefit a country's economy as sophisticated investors make their way into the market to expand the market and improve the market competition. This leads to various benefits such as:

1. Improving efficiency and economic growth
2. Introduction of new skills and technology
3. Transferring knowledge
4. Create employment opportunities
5. An increase in standard of living
6. Potential cooperation and business opportunities for local businesses

However, a country should study the potential areas for FDIs as well as regulations. Countries permitting foreign ownership of companies in strategic industries would lead to lowering the competitive advantage of the country. Further, foreign investors might affect local small businesses by taking market share from them, monopolizing the highly profitable sector and they disturb the economy as they invest more in property and machinery rather than human capital.

Kuwait has introduced a new FDI Law No. 116 of 2013 to promote and ease the process for direct investment by foreign investments in the country. Under the new law, Kuwait Direct Investment Promotion Authority (KDIPA) was established to manage applications from foreign investors. FDIs can take one of the three forms according to the new law:

1. Kuwaiti company with up to 100% foreign equity, previous to this law it was limited to 49% only.
2. A licensed branch of a foreign company.
3. A related office to conduct market studies and production opportunities without engaging in commercial activities.

The new FDI Law No. 116 of 2013 eased the process for foreigners in addition to the exemption of income taxes up to 10 years as well as partial or total exemption from custom duties. Moreover, the new law replaced the "positive list" with "negative list" instead to clearly display the sectors that are not applicable for foreign investors to invest into and tentatively open up more sectors to foreign investors.

The negative list includes the following sectors:

1. Extraction of crude oil
2. Extraction of natural gas
3. Manufacturing of coke oven products
4. Production of fertilizer and nitrogen compounds
5. Production of domestic gas and its distribution via main pipelines
6. Real estate activities, except construction development projects for private operations
7. Private security and investigation activities
8. Private organizations in public administration, defense and compulsory social security
9. Activities with a professional body (e.g., lawyers)
10. Labor services, including domestic labor

The introduction of the new law with the promotion of foreign investments by KDIPA in Kuwait already led to achieving FDI inflow of $1.2 Bn from foreign companies by IBM, Huawei and GE in 2015. KDIPA is expecting more foreign investments to flow into the country in the upcoming years as a result of the new law.

As per World Economic Forum, The Global Competitiveness Report 2015-2016, the following factors regarding FDI were compared among Kuwait and the GCC:

Factors	Countries (Rank out of 140 countries)					
	Kuwait	Saudi Arabia	Qatar	UAE	Bahrain	Oman
Business impact of rules on FDI	137	107	16	7	8	80
FDI & technology transfer	132	18	4	3	30	84

Kuwait Foreign Direct Investment (FDI) Flows

Inward movement – GCC countries (Figure 7)

1. FDI balances are concentrated in a limited number of countries. UAE and KSA accounted for more than 41% of the overall balances.
2. In 2013, Kuwait attracted USD 2,329 Mn of FDI, 3rd among GCC forming around 9.7%.
3. In 2013, Kuwait ranked 8th among Arab region representing around 4.9%
4. Low levels of FDI limited efforts to diversify the economy away from the petroleum sector. Barriers to foreign investment exist, including:
   a. long bureaucratic delays in starting new enterprises,
   b. agency and sponsorship requirements, and
   c. a local business culture heavily based on circle and family relationships that often preclude foreign participation.
5. Outward movement – GCC countries (Figure 7)
6. GCC countries represented the main source of the region's outflows with 95% in 2013.
7. Kuwait tops the outward movement of FDI flows among Arab countries with investments worth USD 8,377 Mn in 2013 with Qatar following.

As a percentage of the GCC countries, Kuwait's FDI outward movement has decreased from 40.4% in 2004 to 31.4% in 2013. The outward movement peak was seen in 2009 at 57.2% during the global crisis.

Kuwait Foreign Direct Investment Stock/Portfolio Investments

Inward movement – GCC Countries (Figure 7)

1. Kuwait's inward portfolio movement has increased from USD 0.4 Mn in 2004 to USD 21.2 Mn in 2013, however Kuwait is at the lowest compared to KSA, UAE and Qatar
2. Post crises, inward movement of FDI stock/portfolio investments more than doubled. It increased from USD 8.7 Bn in 2008 to USD 21.2 Bn in 2013
3. In 2013, Kuwait represented around 5.3% among the GCC countries
4. Saudi Arabia followed by the UAE represents countries with the major inward flows of foreign direct investment (stock /portfolio investments)

Outward movement – GCC countries (Figure 7)

1. Kuwait's outward portfolio movement is 2nd amongst GCC countries.
2. Post crises, outward movement from FDI stock/portfolio investments increased from USD 22.4 Bn in 2008 to USD 40.2 Bn in 2013.

3. UAE followed by Kuwait represents countries with the major outward flows of foreign direct investment (stock /portfolio investments)
4. In 2013, Kuwait represented around 21.4% among the GCC countries

Inter-Arab Projects

Cost of Greenfield Projects (Figure 7)

1. Kuwait's inflow cost of Greenfield projects has been the lowest among the GCC countries. It accounts for 1% among the GCC neighbors.
2. Saudi Arabia, Qatar followed by UAE are the highest contributors to the inflow costs of Greenfield projects in the GCC region.
3. Kuwait's outflow cost of Greenfield projects stood third amongst the GCC countries at USD 36 Bn.
4. UAE, Bahrain followed by Kuwait are the highest contributors to the outflow costs of Greenfield projects in the GCC region with Kuwait accounting for 11%.

Number of Greenfield Projects (Figure 7)

1. Kuwait's outward portfolio movement is 2nd place amongst GCC countries. Kuwait's number of inflow Greenfield projects has been the lowest among the GCC countries. It accounts for 9% among the GCC neighbors.
2. Kuwait's number of outflow Greenfield projects accounts for 14% while the major contributors include UAE at 57% and Saudi Arabia at 26%

Developments in Laws/Regulations of Foreign Direct Investment

In December 2014, Kuwait issued a new FDI law to amend its 2001 Direct Investment Promotion Law. The new law was drafted as part of the Kuwait Development Plan (KDP), the government's long-term economic vision for the country.

Spanning 2009 to 2035, the KDP aims to reduce oil dependency by transforming the state into a diversified commercial and financial hub.

The KDP comprises five separate five-year plans. Running from 2015-20, the latest plan provides USD 116 Bn for a broad range of projects, including 45,000 new housing units, metro and railway systems, and a new refinery. According to the plan, Kuwait is seeking to propel the private sector's share of the economy to 41.9%, from its current level of 26.4%.

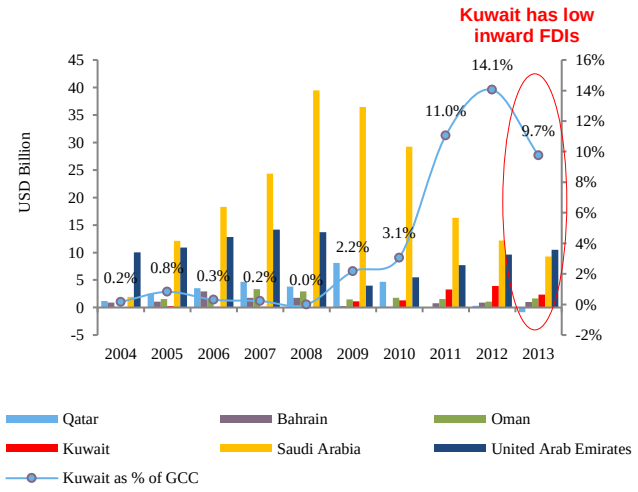
In a key development under the new FDI law, the government in December 2014 established Kuwait Direct Investment Promotion Authority (KDIPA) to facilitate licensing and incorporation procedures. In April 2015, IBM received KDIPA's first investment license. The license allowed IBM to establish a 100%-owned Kuwaiti company and "to benefit from the incentives and exemptions granted under Law No. 116 of 2013 governing the Promotion of Direct Investment."

KDIPA has plans to establish a "one-stop shop" unit to streamline registration and licensing procedures for investors, thereby reducing the bureaucracy that has caused concern among investors in the past. This innovation is envisioned to reduce incorporation processes from over six months to 30 days.

Other recent measures to facilitate FDI and economic growth include the introduction of a public-private partnership (PPP) law, implemented in October 2014, and a New Companies Law, enacted in November 2012.

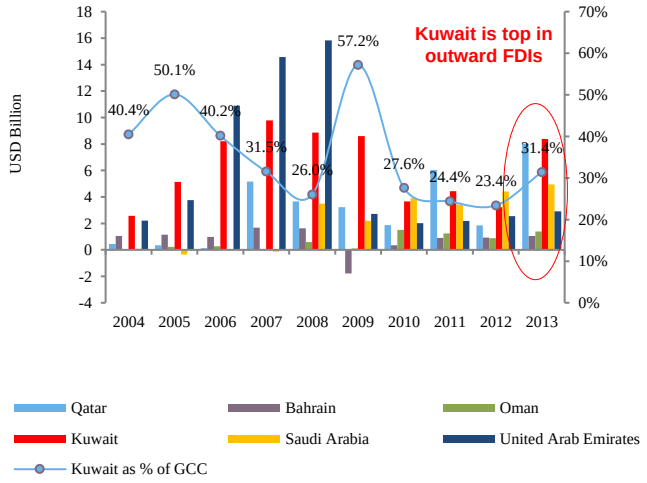
Figure 4: Kuwait Foreign Direct Investment

FDI Flows :Inward Movement – GCC Countries



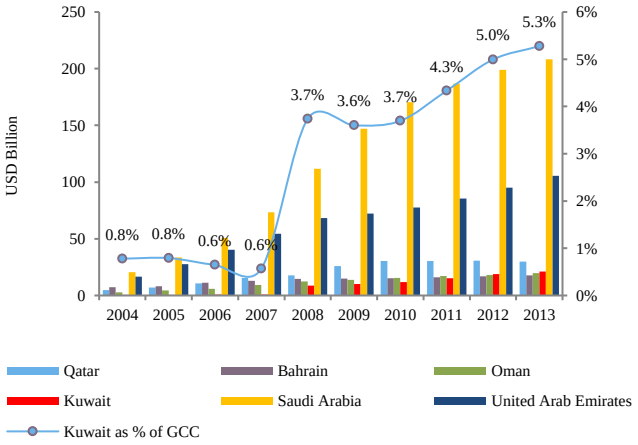
Source: United Nations Conference on Trade and Development

FDI Flows: Outward Movement – GCC Countries



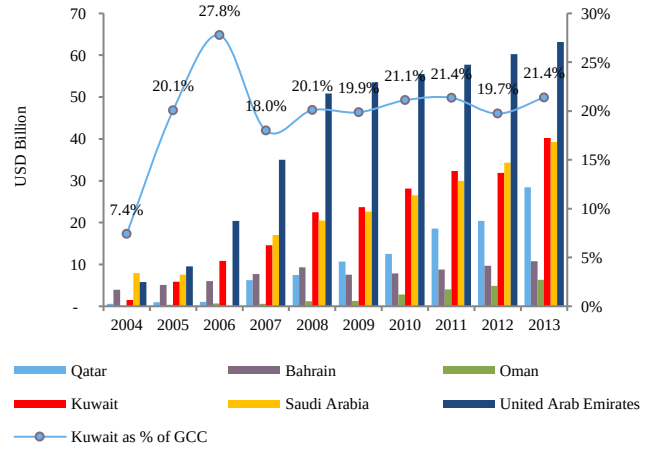
Source: United Nations Conference on Trade and Development

FDI: Stock/ Portfolio: Inward Movement



Source: United Nations Conference on Trade and Development

FDI: Stock/ Portfolio: Outward Movement



Source: United Nations Conference on Trade and Development

Capital Markets

Ingredients for Successful Capital Markets

It's widely understood that stronger and deeper capital markets can help to mobilize domestic savings and support the efficient allocation of resources, increasing investment and growth. Moreover, greater availability of domestic capital, at longer maturities and denominated in local currency, makes emerging economies less vulnerable to external financial shocks. But while there has been some progress, capital markets remain illiquid and underdeveloped in most emerging markets and developing economies.

The preconditions for capital market development, which can be grouped into four pillars from a recent BIS paper are interdependent: fragilities in any single pillar weakens the others; all pillars are equally important and necessary. Second, even if all the necessary conditions are in place, this may not be sufficient for developing countries to achieve the desired resilience against adverse external shocks; as these economies still lack the capacity to issue internationally recognized "safe" assets.

Pillars of Development of Capital Market

1. Macroeconomic Stability
2. Sound banking system
3. Solid institutional frameworks
4. Adequate regulation and supervision

The 4 pillars cannot be effective if they lack the support of a solid institutional framework that protects the rights of investors and creditors (pillar 3). South Asia, the Middle East and North Africa, and Latin America, which trail other parts of the world measures to resolve insolvent firms also have the least developed capital markets.

In countries with economic instabilities (pillar 1), weak judicial systems (pillar 3) and/or fragile banking systems (pillar 2), even a well-designed bankruptcy law (pillar 4) will not allow for the orderly restructuring of firms in distress. Firms' liquidation, even at fire sale prices, will be the creditors' preferred choice, as they assign a very low probability to the recovery of their investments, perhaps due to lack of trust in the country's macroeconomic management or institutional framework. No capital market regulation, even if effective (pillar 4), can ensure the availability of liquidity (very much needed for the operations of capital markets) provided by sound banks (pillar 2).

Liberalizing the foreign-investment rules of private pension funds (pillar 4) in countries lacking macro stability (pillar 1) and financial stability (pillar 2) might exacerbate capital outflows in case of an adverse shock.

In the early stages of financial development, the fundamental requirements for both a bank-based system and a market-based system are largely the same. Both require a basic institutional framework that includes: well-defined property rights, bankruptcy laws, and competition laws; regulatory institutions for banks, markets, and corporations; and an effective judicial system that can uphold and enforce these.

The legal system is the key to creating an environment in which growth can flourish. The need to prevent corruption and to establish macroeconomic policies is conducive to sustainable growth, as well as building robust political and economic institutions. Good management, accountability, and transparency in the public sector set the tone for good management at the corporate level. Good public finances are also important, though this is not always sufficient to ensure economic stability. Banking regulation is particularly important. A well-regulated banking system remains important even once capital markets have begun to assume a larger role in the economy.

Critical reforms for a successful capital market

Key Controls	Reforms	Result
Encourage Secondary Trading	Supervise money markets, debt and equity exchanges Efficient clearing and settlement systems Regulatory polices	Provides liquidity to the financial markets Reduces systemic and market risk
Regulatory Controls	Lift controls on deposits and lending rates Disavowal of explicit state-offered credit guarantees or deposit insurance Lift restrictions on banks nontraditional activities	Eliminates the problem of moral hazard that skews bank lending and constrains capital markets Encourages banks to enter the capital markets and promote competition
Central Bank	Improve transparency Required disclosures for all participants namely regulatory agencies, banks, investors etc	Credible and largely independent bank
Markets	Incentives for market intermediaries Open domestic markets and brokerages to foreigners Encourage the development, participation of institutional investors, insurance companies & private pension schemes	To gather better information and conduct better risk assessment Deepen liquidity and introduce competition even if this sometimes results in higher volatility
Risk Management	Shift in regulatory approach focus from one that is strictly rules - based to one that is more focused on risk management	Greater flexibility and should reduce the system's vulnerability to shocks
Government Debt	Regular issuance of government bonds of varying maturities	Government benchmarks can help to establish a yield curve and a guide for credit ratings for privately issued debt

Role of Debt Capital Market

Developing capital markets is an important issue for Asian countries. The trading volume on domestic bond markets in those countries may not be large enough to provide sufficient liquidity and depth, because the scale of the economy of those countries is limited. Therefore, major Asian companies have often issued their corporate bonds in New York and London, but cross-border regional bond markets can be established in the Asian region in a similar manner, and they can encourage companies in the region to float their bonds in several markets. The development of such markets would not only contribute to regional financial stability, but also benefit those companies as well. Past financial crisis and equity market volatility in 2008-2009 stressed the importance of fully active domestic debt markets

Absence of Debt Market leads to:

1. Financial systems that is extremely bank-centric, which concentrates financial risk in the banking system with no alternate channel of intermediation.

2. Borrowing could suffer from a double mismatch with long-term domestically oriented investment projects funded through short-term and foreign currency borrowing.

3. An economy could be excessively dependent on volatile capital inflows

Developing debt market will lead to:

1. Better Financial Intermediation: Channel funds from those who are saving to those who are investing.
2. Efficient Financial Resource Allocation: Efficient allocation of financial resources will lower the cost of capital to the real sector, which will accelerate economic growth and improve living standards.
3. Funding Large Investments:

   Such projects tend to be risky and take time before they yield returns, characteristics that make investors reluctant to finance them but the risk-sharing and risk-shedding features of bonds make investors more willing to take on the risk than a bank.

Government debt markets generally precede corporate bond market development as governments are typically the first major borrower requiring access to large volumes of long-term capital. Sovereign bond issuances also play an important role in the financial system by serving as:

Role of Sovereign bond

1. **Anticipated economic and political condition indicator -** Sovereign yields generally provide good insights into the market's expectations for future interest rates as well as provide investors a view of how disciplined the government is about its financial development
2. **Asset base for portfolio construction -** Government bonds are low volatility, low credit-risk assets around which banks and investors can build their balance sheets and portfolios
3. **Vehicle of choice for hedging** - Banks and investors use sovereign issuances to hedge away specific risks such as interest-rate risk.
4. **Benchmark for yield curve** - Investors can price other non-government securities using this as a risk-free reference for yields at various maturities.

Capital Markets Framework

A function of capital markets and contracts is to establish and provide for the exchange of claims to assets, the income they generate and the value or price of those claims. There is a preponderance of empirical evidence that there is a positive first-order relationship between financial development and economic growth. It is a market specialized in transactions with medium and long term financial assets, open and transparent market. The capital circulation vehicle is represented by securities, characterized through negotiability of the price and immediate transferability with very low transaction costs and the transaction is made through intermediaries, who have an essential role in connecting the owners or issuers of securities with the owners of capitals. Additionally, it entails risks both for the issuer and for the investor, specific for each financial instrument in question, but at the same time it also offers complex solutions for minimizing and dispersing it, both the financial and the operational one.

1. **Trading in terms of new issues and outstanding issues of claims;**
   a. Exchange of outstanding issues represents transfer of property rights;
   b. Exchange of new issues represents transfer of funds from savers to borrowers
2. **Equities or stock**
   a. Residual claims on "risky" and uncertain future income stream of assets Holders have incentive to promote - or push company to promote - efficient use of assets to minimize costs
3. **Debt**
   a. Claim to a pre-specified portion of future income stream of an asset

Capital Markets

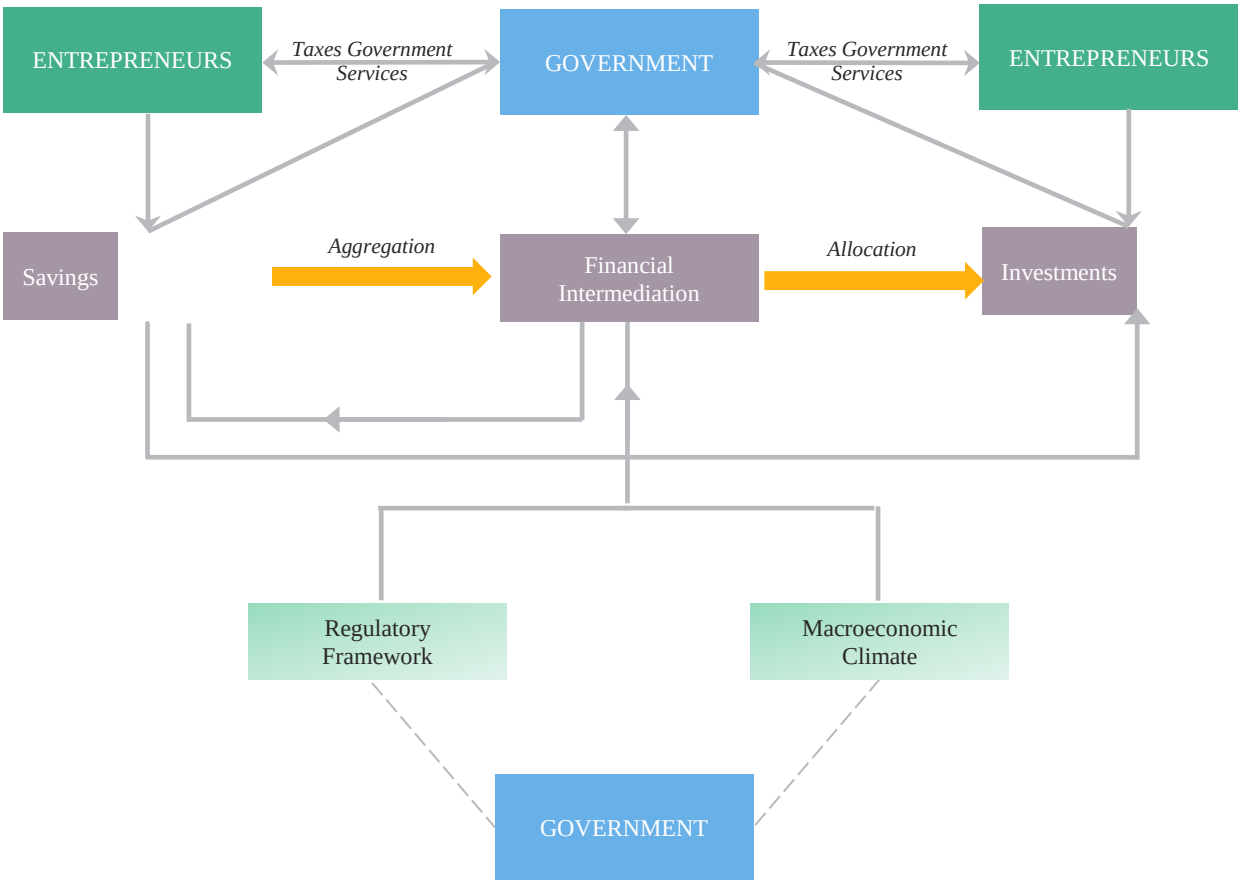
- **Claims or Ownership Traded**
- **Varying Maturities**
- **Stocks, Bonds and Derivatives**
- **Standardized / Customized**
- **Organized Exchange**
- **Only market in which long term impersonal investments and borrowings can occur**

The benefits of deep capital markets in addition to supporting efficient allocation of resources by complementing banks' financial intermediation role, they can increase economic agents' capacity to manage financial risks and their resilience in the face of unexpected shocks.

Capital markets foster firms' financial integrity through market discipline and the need to comply with internationally accepted standards on accounting practices, transparency and governance, among others. In spite of these benefits, however, capital markets in most emerging economies are weak and underdeveloped.

Developing these markets is not an easy task, as it involves a large number of players and institutions, as well as complex building blocks, to ensure the efficiency and safety of their operations.

Illustration of the Capital Market Framework



Case Study – Importance of Debt Market

The debt crisis in less developed countries (LDCs) broke out in August 1982, when Mexico was unable to service its outstanding debt to US commercial banks. 27 Countries owing $237 Bn failed to meet their debt obligation amongst which were Mexico, Brazil, Venezuela and Argentina accounting for circa 75% of the entire debt. The main cause for the crisis was the American banks' overexposure to LDCs given eagerness to expand amongst robust competition. The rise in oil prices in 1979 coupled with rising interest rates in United States and the strengthening of the dollar triggered the crisis which left the US banking system at risk.

In the late 1980s and another banking crisis occurred due to aggressive lending to commercial real estate based on speculation especially in the office sector. Commercial real estate lending was common as grew from $64 Bn to $ 238 Bn between 1980 and 1990 mainly because it involved receiving large up-front fees. However as the 1990/91 recession hit, the credit quality of the real estate deteriorated leading to steep declines in rents and prices. This fall was fueled by the loose underwriting of commercial banks focusing on collateral values and closing of insolvent savings and loan institutions.

One of the critical points from the above crises was that during both the crises the existence of multiple avenues of financial intermediation served the United States well. The liquidity crunch in the wake of banking crises, caused by either external (the LDC debt crisis) or domestic (commercial real estate crisis) shocks, threatened to disrupt normal credit flows in the economy, which could have had severe adverse effects on the real economy. In both scenarios, the decline in bank loans was substituted for bond financing. A critical point to note was that there was no increase in yields of investment grade corporate bonds when the bond market was substituted for loans. Hence, multiple avenues of financial intermediation help to sustain liquidity in an event of crisis to one credit avenue.

Frontier to Emerging

Frontier markets are countries that because of demographics, development, politics and liquidity are considered less mature than emerging markets. A frontier market is considered a type of emerging market, but is considered less prominent or important than markets like India or Brazil. Frontier economies tend to be low-income countries with strong growth convergence potential and illiquid, immature markets. They tend to have low public debt levels, higher growth rates and they are often driven by strong demographics and important structural transformations. By virtue of the relative simplicity of their economies, Frontier Markets are often (but not always) more exposed to commodity price volatility and weather shocks, both on the import and export side of the economy, than developed economies.

Definition of Frontier vs Emerging Markets is not strict in most cases. The World Bank focuses on a country's economy and, in particular, its relative level of wealth per capita. Countries with high levels of per capita income are classified as developed. Meanwhile those countries with low, middle, and upper-middle incomes per capita, relative to incomes in other countries around the globe, are classed as developing, or emerging. Countries with even lower levels of income per capita are deemed frontier markets. These tend to have more volatile, less diverse stock markets and the companies have poorer levels of shareholder and corporate governance. The lack of transparency and information available to investors in frontier markets can mean that a wide disparity between a company's value and potential for growth and its current share price. This can result in considerable returns for investors. Similarly, because it can be difficult for foreign investors to access these regions, one can make significant losses.

The MSCI Market Classification Framework consists of following three criteria: economic development, size and liquidity as well as market accessibility. In order to be classified in a given investment universe, a country must meet the requirements of all three criteria as described in the table below.

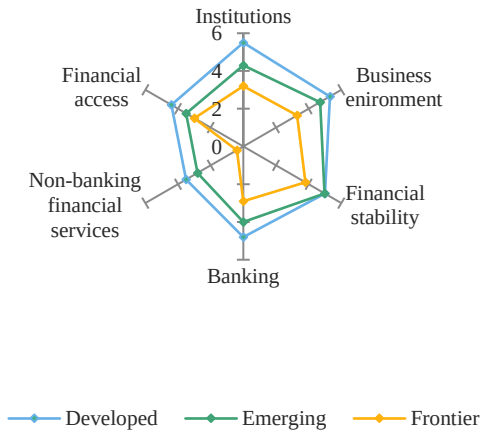
Key Criteria to Fulfil to Qualify for a Transition

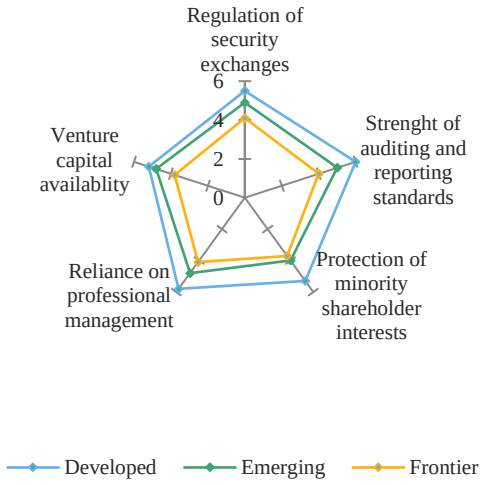
Criteria	Frontier	Emerging	Developed
Economic Development			
-Sustainability of economic development	No requirement	No requirement	Country GNI per capita 25% above the World Bank high income threshold* for 3 consecutive years
Size and Liquidity Requirements			
-Number of companies meeting the following Standard Index criteria	2	3	5
-Company Size (Full Market Cap) **	USD 640mm	USD 1260mm	USD 2519mm
-Security Size (Float Market Cap) **	USD 49mm	USD 630mm	USD 1260mm
-Security Liquidity	2.5% ATVR	15% ATVR	20% ATVR
Market Accessibility Criteria			
-Openness to foreign ownership	At least some	Significant	Very high
-Ease of capital inflows / outflows	At least partial	Significant	Very high
- Efficiency of the operational framework	Modest	Good and tested	Very high
-Stability of the institutional framework	Modest	Modest	Very high

The distinction between 'frontier' and 'emerging' market status is sharper than that between 'emerging' and 'developed' markets. If the intention of policymakers in frontier markets is to benchmark against emerging ones, then policy will tend to focus on ensuring financial stability and improving the supply of financial services other than banking, while also developing the banking sector and improving the wider business environment.

As a rule, frontier markets lag behind emerging markets on many dimensions much more than the latter lag behind developed markets. Compared with frontier capital markets, emerging ones perform substantially better in almost all respects. The biggest difference by far appears to be in the development of non-banking financial services, followed at a distance by improvements in the overall business environment and the development of the banking sector. Financial stability is also a big difference between frontier and developing markets – a hygiene factor in the development of fledgling capital markets, but one that in turn depends on a complex set of macroeconomic conditions.

Improved disclosure, both mandatory and voluntary, is one of the few sustainable means of attracting liquidity. The experience of markets around the world shows that the timely and credible disclosure of company information tends to promote investor confidence and attract additional listings, thus broadening the benefits to the domestic economy. Often, a country is upgraded in recognition of significant economic reforms, which are often a precursor to an improved growth outlook. Reclassification also raises the profile of a country's stock market within the foreign investment community and could drive significant capital inflows. Egypt was a glowing success story for a few years after it was added to the MSCI Emerging Markets Index in 2001. Thanks to tariff cuts, economic liberalization, and privatization, Egypt enjoyed strong increases in foreign direct investment and portfolio inflows, and from 2003 to 2007, the MSCI Egypt Index returned an average of 84% a year.





Previous Studies and Policy Efforts

Multiple studies have been conducted on the investment sector of Kuwait in the past few years, below is the list of some of the reports:

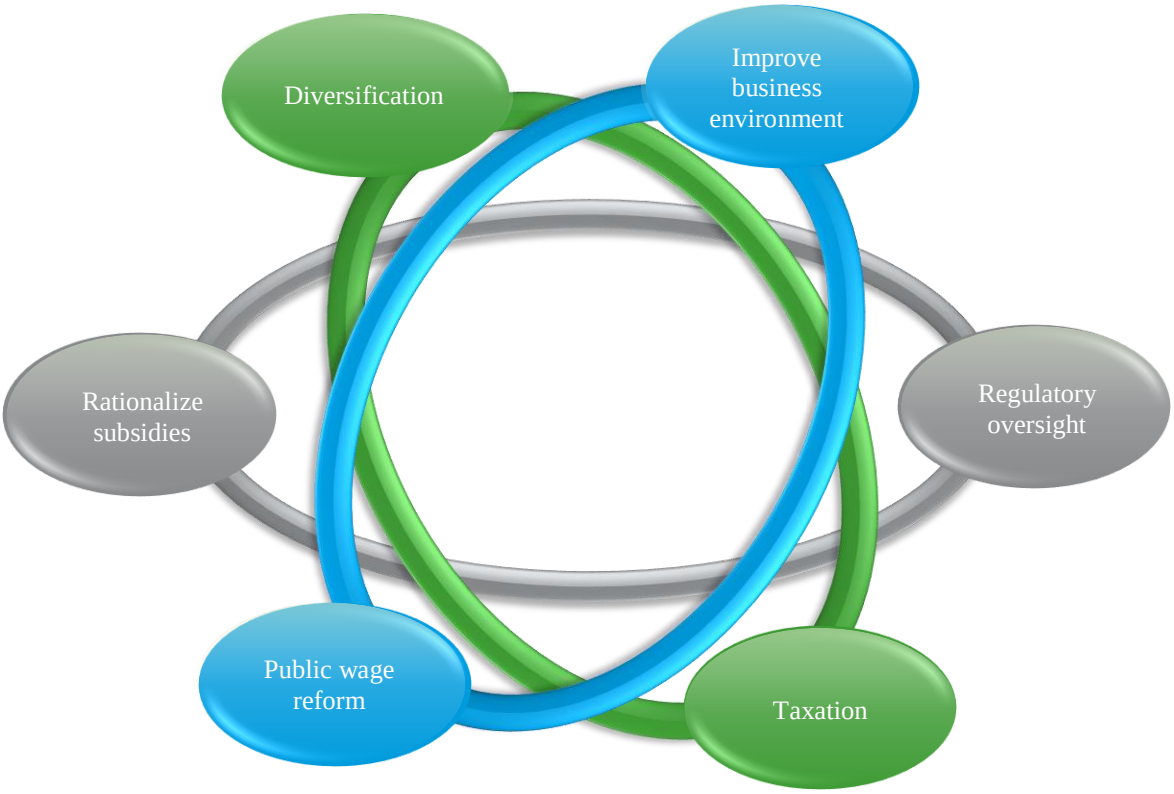
Organization	Date	Report Title
IMF	2015	Consultation
IMF	2014	Consultation
IMF	2013	Consultation
IMF – Selected Issues	November 2013	Strengthening Resilience in the Financial System
Booz & Co.	September 2013	How to Restructure Kuwait's Investment Companies: Why Facing Financial Reality is Critical
World Bank	April 2013	Kuwait: Fostering Sustainable Investment Through Modern Commercial Law Systems
Capital Standards	May 2012	Kuwait Mutual Fund Industry
Markaz	March 2012	Kuwait Investment Sector: Too Important to be left
Bayan Invest	2012	Kuwait Investment Sector Video Cast
IMF	2012	Consultation
Capital Standards	November 2010	Kuwait Investment Sector
Markaz	September 2010	Kuwait Investment Sector: Taking Stock 2 years after the Crisis
IMF	July 2010	Financial System Stability Assessment Update
Markaz	June 2010	New Regulations for Kuwait Investment Sector
Oxford Analytica	June 2010	Kuwait: Troubled Finance Sector is Learning Lessons
Al Tamimi & Co.	June 2010	Restructuring Kuwait Investment Companies Various Options and Legal Strategies
Markaz	June 2009	Investment Sector: Not an Easy Road Anymore
Markaz		Investment Issues in Kuwait (Interview with Al Ghanim, Chairman, Markaz)
CBK		Obstacles Confronting Banking & Financial Sector in State of Kuwait

Based on this study, a few recommendations for the revitalization of the investment sector in Kuwait have been aggregated, which have been already suggested in the past as well:

1. According to IMF report dated 2012, Kuwait has been examining options to enhance government revenues through subsidy reforms. However the only subsidy reform that has taken place has been the elimination of diesel and kerosene subsidies effective from January 2015 and increase in the price of aviation fuel. Further, VAT was expected to be introduced within the GCC, while business tax is expected to be introduced in Kuwait.
2. According to World Bank report dated April 2013, the government of Kuwait should seek to establish a framework for liquidation of non-viable distressed businesses and reorganization of the same.
3. According to Markaz report dated March 2012, strong companies should acquire weaker companies, the government should provide liquidity for refinancing to strong and semi-strong companies and semi-strong companies should seek Financial Stability Law for restructuring.

Although the above reports have ranged from 2010 to 2015 with various recommendations for the investment sector in Kuwait, no effective implementation of the recommendations has taken place.

Other Global Studies Recommendations:



Kuwait should deepen its asset market to provide more avenues for financing, investing and improving the investment climate by strengthening corporate governance, anti-corruption efforts and improving data availability for investors. This would in turn contribute towards better performance of the corporate sectors enhancing the diversification process. Further, Kuwait has seen recent efforts in finalizing foreign investments and National Fund for SME Development. Also Kuwait has established Kuwait Direct Investment Promotion Authority under the new FDI law to streamline registration and licensing procedures for investors. Kuwait now needs to focus on the implementation of these policies to encourage domestic operations, develop export markets, enhance infrastructure and support workers in acquiring the necessary skills and education. Establishment of bankruptcy laws in Kuwait is also a key necessity.

In 2014, energy and water subsidies were 7.6% of GDP amounting to KD 3.7 billion of which 35% were petroleum subsidies. The opportunity cost as estimated by IMF for selling energy products (gasoline, diesel, natural gas & electricity) below international prices was $12.7 billion in FY 2014 and $9.3 billion in FY 2015. Kuwait is currently studying a proposal to increase electricity prices after increasing kerosene and diesel prices. Moreover, given the reduced oil prices, other economies within the GCC such as Bahrain and Saudi Arabia have initiated a subsidy reform program to increase electricity for industries, Qatar has increased gasoline prices while UAE has introduced a pricing mechanism for setting fuel prices against an international benchmark. Other oil importing countries namely Egypt, Jordan, Mauritania, Morocco, Sudan and Tunisia have also initiated subsidy reforms.

Kuwait is currently working on a draft business profit tax (BPT) that would potentially increase revenues by KD 500-800 million that is circa 1.3% – 2.1% of total expected 2016 GDP, as estimated by IMF. Further, value added tax (VAT) is also being discussed at the GCC level which could potentially increase non-oil GDP by 1 - 2% as estimated by IMF.

Kuwait is currently considering a reform to standardize the wage structure in the public sector. The reform would entail a framework that would limit wage growth which would be effective from FY 2016/17. Alignment of the wage growth is expected to be KD 350 Mn however this would be spread over the next two years with the savings being back loaded. Moreover, as Kuwait's financial system is interconnected with the investment sector, IMF recommends close monitoring of investment companies' activities, consolidating the sector and strengthening regulatory oversight in order to strengthen the entire sector.

Financial Stability Law:

The global crisis posed liquidity shortage in the banking sector across the globe. However, Kuwait was not affected by it in the traditional sense. Kuwait's liquidity problem was of a different nature as Banks had the liquidity however it did not flow into the real estate and financial sectors of the economy primarily due to the reluctance of banks to extend credit in the midst of the crisis. The reluctance of banks to lend was due to poor collateral market values of borrowers and absence of loan guarantee from the government. Consequently, the government adopted Law Decree Number (2) of the year 2009 with regards to Reinforcing the Financial Stability in the State, also known as the Financial Stability Law (FSL), to enhance economy wide potency.

Financial stability requires a solid banking sector and ample support to the economic activity in the country. In addition, stimulating the banking sector to finance these sectors is of essence.

The law comprises of a Preamble and 5 sections with a total of 33 articles. Sections are namely banks, productive local business sectors, investment companies, penalties and general & final provisions. The law pertains only to solvent companies except for banks where the CBK guarantee program is designed to forestall mandatory declarations of insolvency and wind ups.

The law primarily states:

1. **Banks**
    a. The Government acting through the CBK, will provide a guarantee to banks to cover the deficit in specific allowances that must be made against the credit facilities portfolio and outstanding funding with those banks on 31/12/2008 for a period not exceeding 15 years.
    b. Banks should reduce its deficit, i.e. reduce the value of the guarantee by at least 8% annually from 31/12/2011.
    c. The bank should pay the authority administrative costs not exceeding 1% of the balance of the guarantee at the end of the year.
2. **Productive local business sectors**
    a. The State shall guarantee 50% of the new collateralized funding provided by local banks to clients from all productive local economic activity sectors up to a maximum of KD 4 billion offered during 2009 and 2010 and the guarantee is valid throughout the funding period (max 5 years).
3. **Investment Companies**
    a. Eligibility – Investment companies that are able to persist but face financial problems thus need to remedy their situations so as to continue their obligations.
    b. The State guarantee 50% of the new funding by local banks to be utilized restructuring i.e. settling outstanding liabilities as of 31/12/2008 and scheduling their debts to foreign banks and financial institutions. The new loans have to be collateralized.
    c. The law established a special department in the Court of Appeal to look into restructuring requests as stipulated in this decree by law with the authority to issue a final decision without any appeal.
    d. Provision for injection of capital by shareholders or the government. The government has the right to subscribe for equity and a takeover if the capital requirement is high and the shareholders do not finance.
    e. The restructuring plans also have restrictions on expenses and a requirement for possible merger along with CBK imposed changes in the management and organization of the company.
4. **Penalties**
    a. The law provides for punishment for hiding the truth with imprisonment for a term not exceeding five years and/or a penalty not exceeding KD 5,000.
5. **General and final provisions**
    a. Specifies KD 1.5 billion as the maximum limit for the total sums to be used for the purpose of enforcing the provisions of this decree by law. The cost is to be provided from the State public reserve.

FSL in play

The FSL was implemented to facilitate restructuring however it took time to materialize. FSL was applied in March 2010 for the first time by The Investment Dar ("TID") who applied for assistance in the implementation of its restructuring plan. Further, A'ayan Leasing & Investment Company and Al Madina for Finance & Investment Company have both applied for FSL in FY 2012 & 2013 respectively and both applications were approved within one year.

Limitations

The FSL has been limitedly used due to:

1. The costs attached with using the government as the guarantor
2. The power to mandate in cost cutting
3. The power to change organizational structure
4. Force mergers
5. The government to become a shareholder
6. All new loans should be collateralized however given the decline in asset values, there is a lack of collateral support for new loans

BOOK 1 – CURRENT STATUS

B - MICRO ECONOMIC ANALYSIS

Contents

Synopsis

Breakdown of Companies in the Analysis

Total of 82 Investment Companies as per CBK's List as of Sep '15

Total Listed Companies 29

Financials for companies were extracted between FY 2007 – FY 2014

All listed companies were analyzed for FY 2007, FY 2008, FY 2010, FY 2013 & FY 2014.

29

Total Unlisted Companies 53

Companies with updated Financial for FY 2014	7
Companies with no disclosed financials	36
Companies with outdated financials	10

Incorporated in the Analysis:

- **29** Listed Companies
- **7** Unlisted

Analytical Framework

This analysis is based upon the financials of all companies that were available. All financials were reviewed by clubbing them under the following categories for consistency.

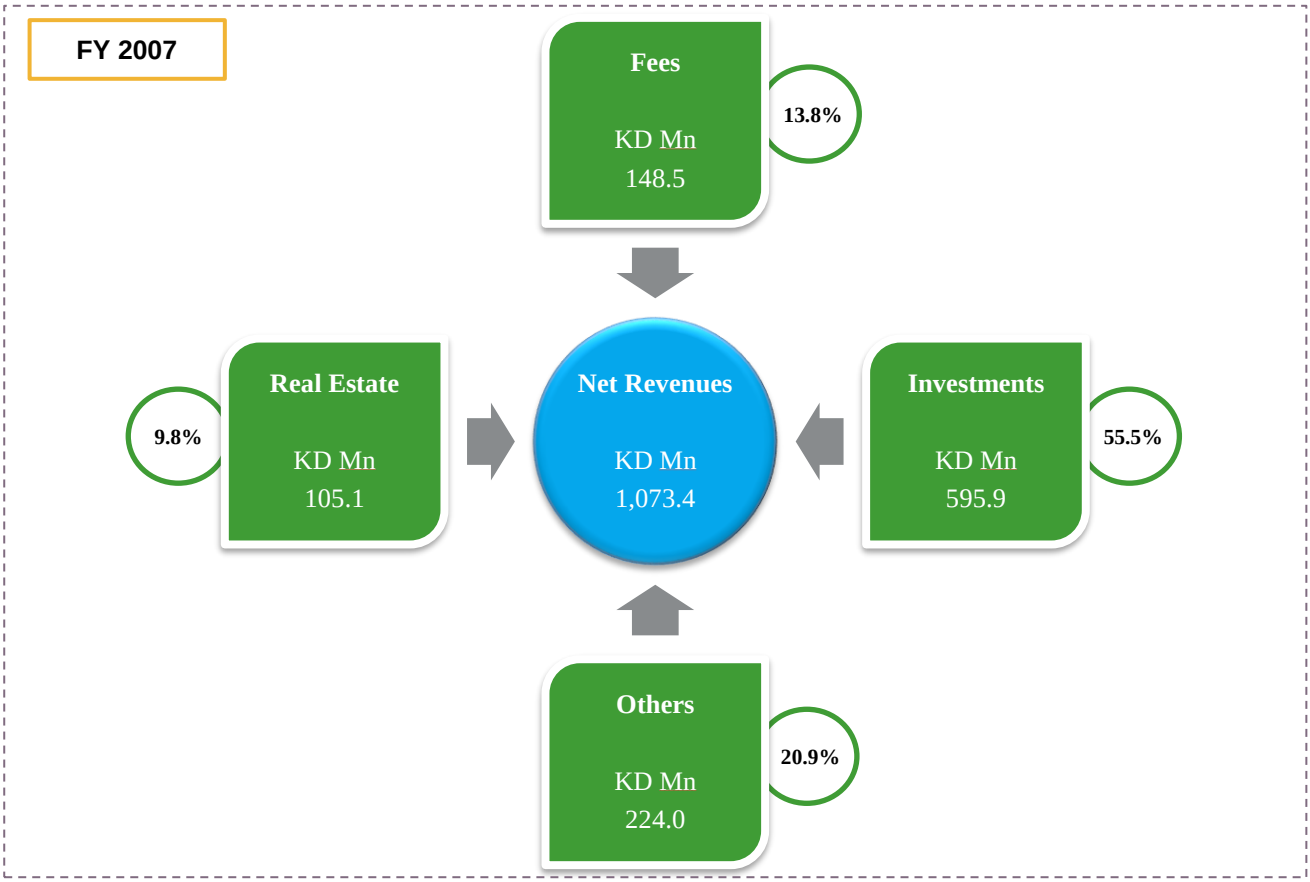
Balance Sheet

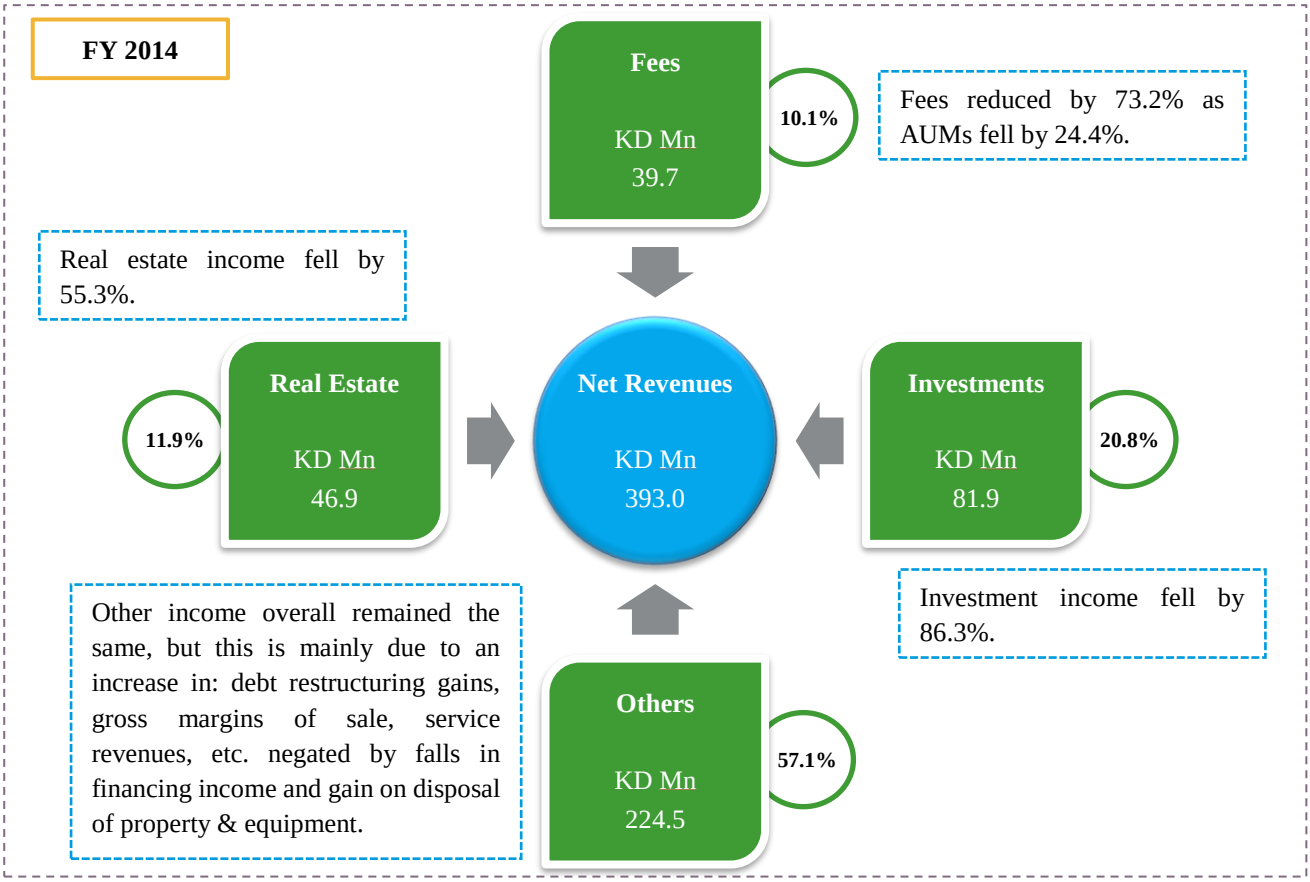
Assets	Liabilities	Equity
7 categories	**2 categories**	**6 categories**
1. Cash & Cash Equivalents, 2. Financing Receivables, 3. AFS & FVITPL, 4. Investment in Associates & Unconsolidated Subsidiaries, 5. Property Investments, 6. PPE, 7. Other Assets	1. Debt, 2. Other Liabilities	1. Share Capital, 2. Reserves excluding FV & Translation, 3. FV & Translation Reserve, 4. Retained Earnings, 5. Treasury Stock, 6. Minority Interest

Income Statement

Net Revenues	Expenses	Net Profit
4 categories	**4 categories**	**No categories**
1. Investments, 2. Real Estate, 3. Fees, 4. Others	1. Finance Costs, 2. G&A Expenses, 3. Impairment, 4. Other	Net Profit represents profits after taxes, Board of Directors remuneration & gains/losses from discontinued operations.

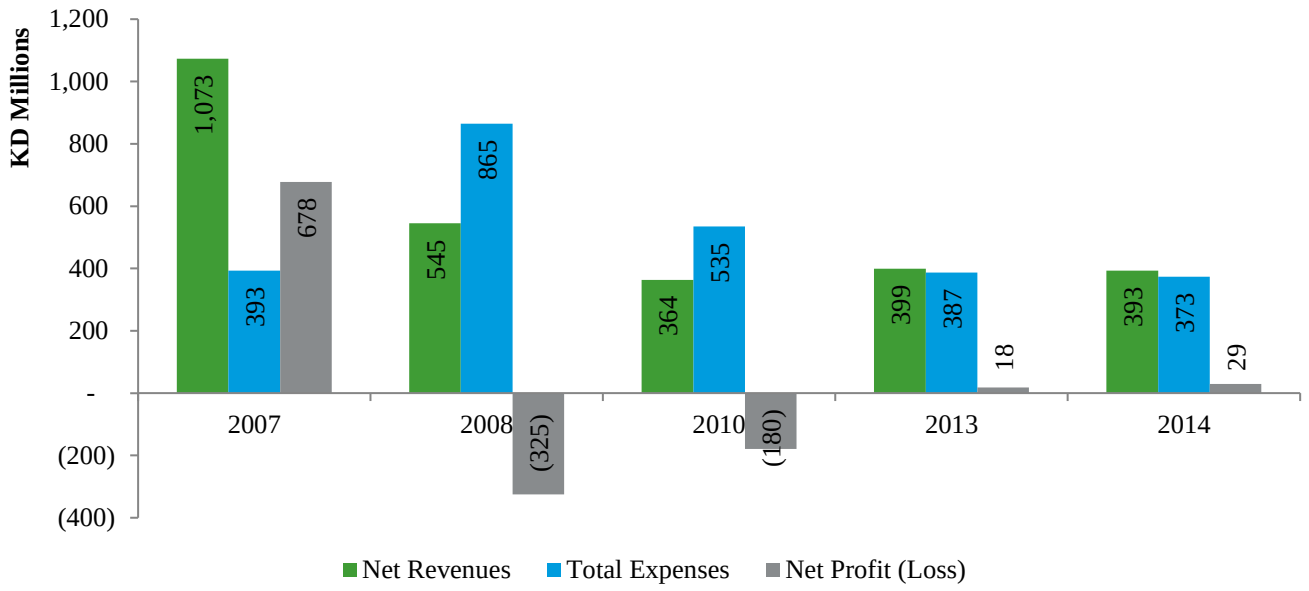
Results – Total Net Revenues (FY 2007 vs FY 2014) Listed Companies Only



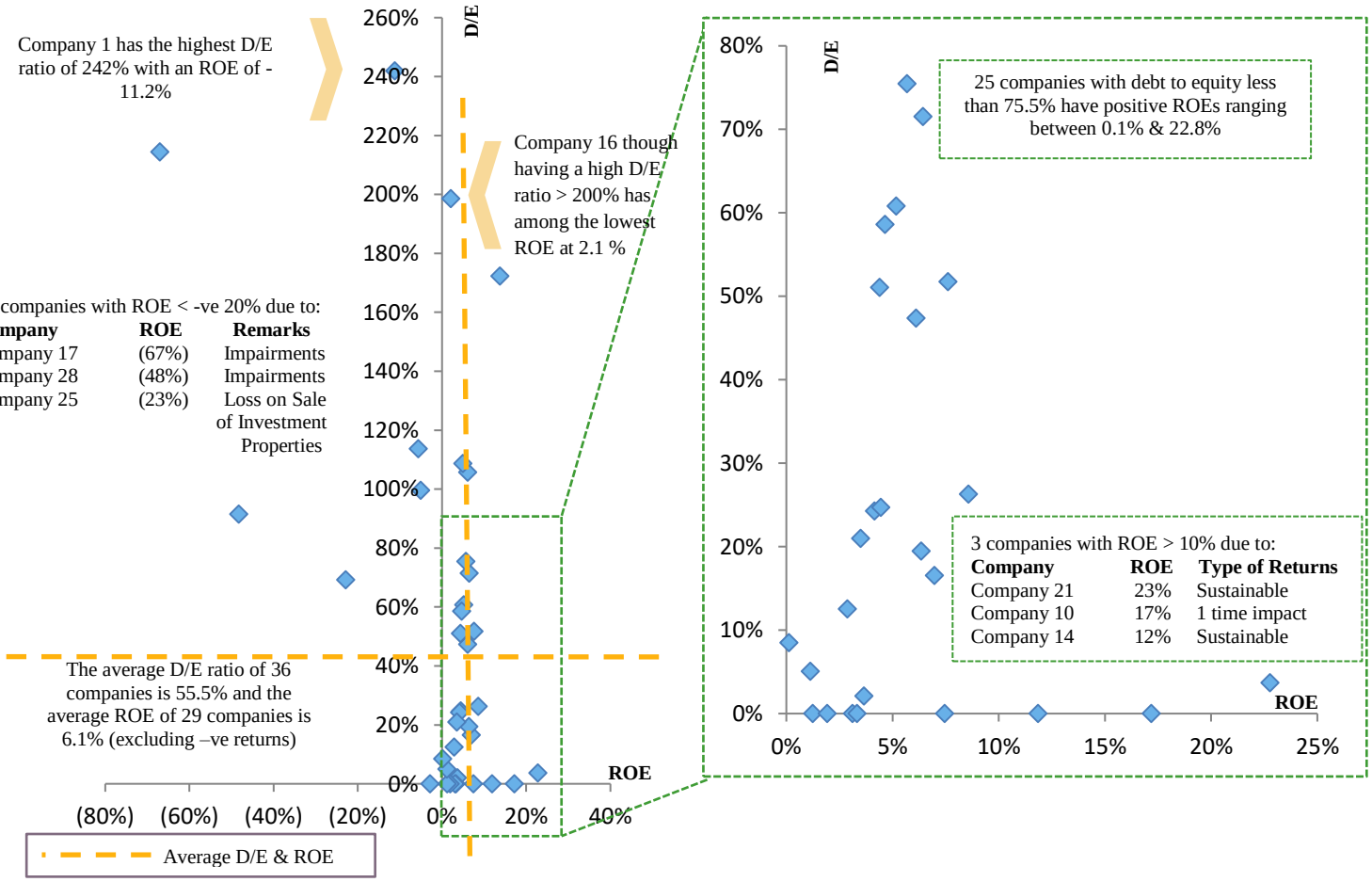


Results – Net Profit throughout the Years – <u>Listed Companies Only</u>

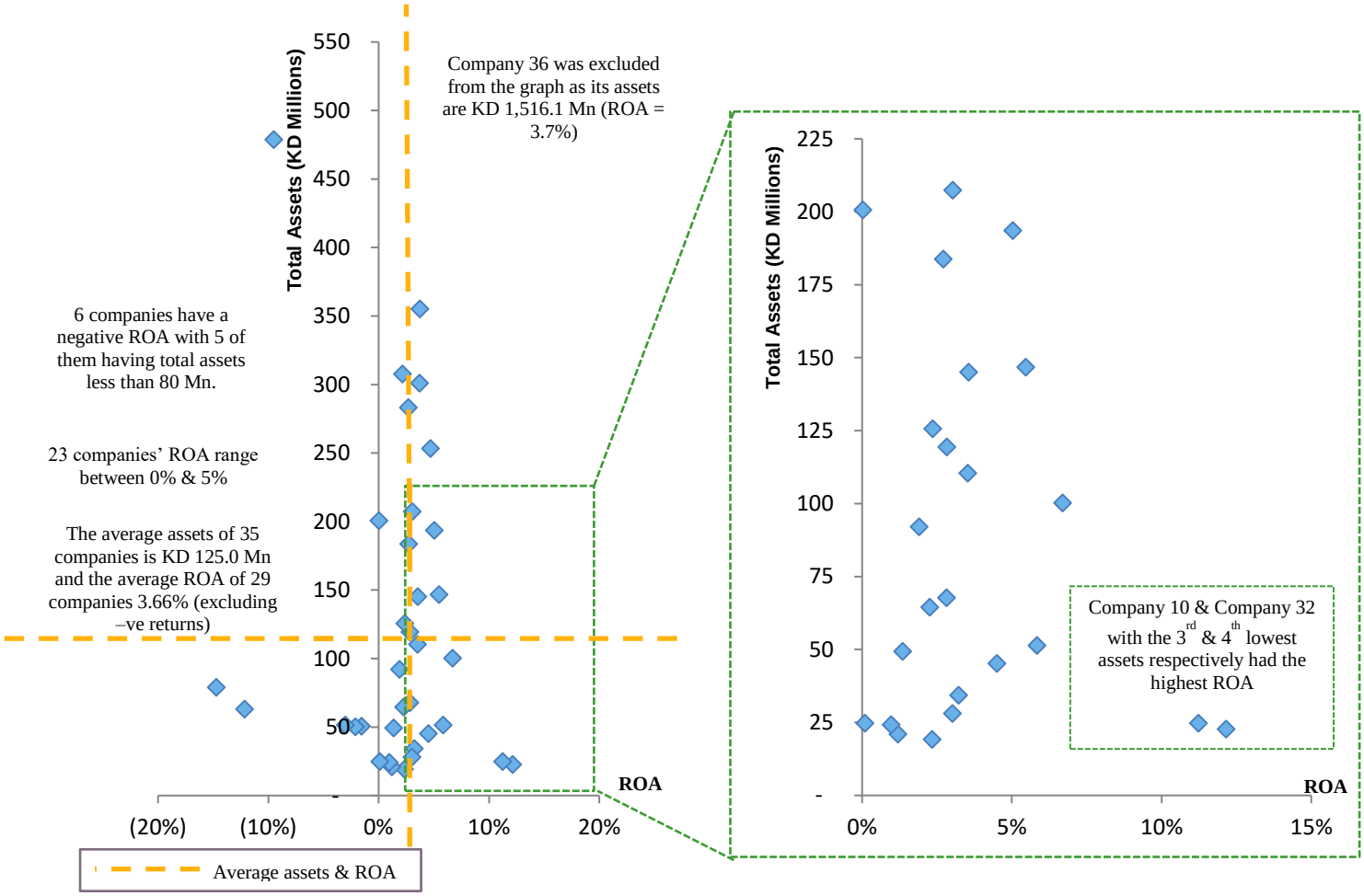
Note: Taxes, BoD remuneration & gains (losses) from discontinued operations are not included in either Net Revenues or Total Expenses, but are included in the Net Profit (Loss).



Results – Debt to Equity vs ROE (FY 2014)



Results – Total Assets vs ROA (FY 2014)



Key takeaways include:

1. Highly fragmented investment sector which requires consolidation. This could be achieved in the way of mergers and acquisitions, amalgamations or mandatory offers. Mergers and acquisition would especially be of help where the business model and strategy of the two companies are similar or have synergies. Potential exists for major reduction in G&A expenses which are essentially duplicated across multiple companies, in spite of limited value add in terms of revenues or profitability.
2. Delisting by companies which feel that intrinsic value and liquidity is not offered by the KSE listing.
3. Need for debt restructuring as indicated by presence of companies that are still overleveraged. However multiple companies have opted for debt restructures enabling a major turnaround in operational and financial performance. Case studies with regards to recent major debt restructures are included in this section.
4. Need for asset sales or set up of a common fund to buy illiquid/low return assets that could be aggregated by qualified investors with a turnaround expertise.

Ranking

The ranking was conducted based on the companies' financial statements of FY 2014.

The ranking is based on seven different criteria with each criterion receiving relative risk points from 1, the best ranking point, to 35, which is the worst ranking point, based on the following:

1. Assets under management (AUM): A company with a higher AUM receives a lower risk point.
2. Total assets: A company with higher total assets receives a lower risk point.
3. Total equity: A company with a higher total equity receives a lower risk point.
4. Return on assets (ROA): A company with a higher ROA receives a lower risk point.
5. Leverage ratio: A company with a lower leverage ratio receives a lower risk point.
6. Share capital: A company with a higher share capital receives a lower risk point.
7. Incorporation year: A company with an earlier incorporation receives a lower risk point.

Note: 1) Seven companies did not disclose their AUM's in their financial statements and as a result they all received the same risk point (29 points).

2) Leverage ratio is based on CBK's leverage ratio definition which is total liabilities to total equity.

After ranking all the companies based on each criterion, risk points for each company are aggregated based on a weightage allocated to each criteria. The companies are then ranked based on the total risk points, lower the risk points, the better the company.

For example: Company 1:

1. Company 1 received 5 risk points for AUM as it has the 5th highest AUM among the companies.
2. It received 17 risk points for total assets as it has the 17th highest total assets among the companies.
3. It received 13 risk points for total equity as it has the 13th highest total equity among the companies.
4. It received 4 risk points for leverage ratio as it has the 4th lowest leverage ratio among the companies and so on.
5. Then the risk points from each criterion were aggregated based on each criterion weightage ((5*30%) + (17*10%) + (13*10%) + (4*20%) + … = 8.7) to 8.7 risk points.
6. As 8.7 risk points is the least among all the companies, it was ranked the first.

The companies were categorized as follow:

Tier 1 – **"Financially Sound**" companies which are the top 10 companies in the ranking which have the least risk points.

Tier 2 – "**Recession Survivors**" companies which are the 16 intermediate companies in the ranking which have the intermediate risk points.

Tier 3 – "**In Distress**" companies which are the bottom 10 companies in the ranking which have the highest risk points.

	Weightage		30%		10%		10%		20%		10%		10%		10%	
	Company	AUM *(KD '000)*	Risk Points	Total Assets *(KD '000)*	Risk Points	Total Equity *(KD '000)*	Risk Points	ROA (%)	Risk Points	Leverage Ratio (%)	Risk Points	Share Capital *(KD '000)*	Risk Points	Incorp. Year *(Date)*	Risk Points	Total Risk Points
1	Company 1	1,188,000	5	100,158	16	89,159	12	7.30%	4	12.34%	9	79,923	6	16-Jun-98	18	8.4
2	Company 2	2,140,000	2	283,161	5	168,568	4	1.87%	19	67.98%	20	55,125	11	25-Nov-61	1	8.5
3	Company 3	1,521,166	4	207,353	7	194,558	2	0.25%	23	6.58%	7	87,621	2	06-Dec-87	12	8.8
4	Company 4	1,089,085	6	145,038	12	109,947	10	4.70%	10	31.92%	15	53,130	13	17-Aug-74	3	9.1
5	Company 5	267,562	9	253,325	6	156,779	5	17.82%	1	61.58%	19	31,185	18	03-Mar-97	14	9.1
6	Company 6	88,749	13	146,687	11	112,350	8	6.21%	5	30.56%	14	65,107	9	26-Jul-97	16	10.7
7	Company 7	1,673,449	3	119,336	14	55,934	16	5.20%	8	113.35%	28	25,528	26	24-Oct-81	9	11.8
8	Company 8	3,500,000	1	67,746	19	39,766	19	4.95%	9	70.36%	21	26,330	25	28-Sep-98	20	12.5
9	Company 9	178,801	12	125,597	13	107,186	11	3.45%	14	17.18%	10	80,000	5	12-Dec-05	31	13.4
10	Company 10	242,670	10	22,717	33	22,076	29	9.55%	3	2.90%	4	19,648	31	15-Dec-74	4	13.7
11	Company 11	75,809	14	307,598	3	216,507	1	1.42%	22	42.07%	16	113,362	1	06-Apr-05	29	13.6
12	Company 12	-	29	300,997	4	169,729	3	3.75%	13	77.34%	23	53,676	12	16-Jan-77	6	16.1
13	Company 13	291,578	8	64,446	20	40,405	18	1.88%	18	59.50%	18	30,713	20	29-Mar-00	24	16
14	Company 14	191,926	11	24,728	31	23,630	26	11.65%	2	4.65%	5	15,133	35	28-Aug-06	33	16.7
15	Company 15	28,143	22	34,295	28	33,845	23	5.54%	7	1.33%	1	30,000	21	17-Mar-98	17	17
16	Company 16	53,932	16	200,573	8	63,678	14	1.60%	21	214.98%	32	41,316	15	01-Feb-97	13	17.2
17	Company 17	52,082	17	478,680	1	81,785	13	(8.67%)	33	485.29%	35	72,000	7	31-Jan-74	2	17.5
18	Company 18	-	29	355,156	2	116,984	7	4.35%	12	203.59%	31	81,404	3	04-Jan-99	22	17.6
19	Company 19	16,704	24	110,372	15	59,082	15	2.44%	16	86.81%	25	68,000	8	28-Mar-82	10	17.7
20	Company 20	3,978	26	183,705	10	155,896	6	(4.81%)	32	17.84%	12	80,288	4	15-Apr-80	8	18.2
21	Company 21	294	28	193,574	9	111,994	9	(0.37%)	27	72.84%	22	62,529	10	29-Jul-75	5	19.3
22	Company 22	44,828	18	27,991	29	27,370	25	3.33%	15	2.27%	2	24,938	27	15-Jul-07	34	20.1
23	Company 23	524,000	7	50,220	25	23,384	27	(3.67%)	31	114.75%	29	26,381	24	01-Jan-84	11	19.9
24	Company 24	36,520	20	92,061	17	50,623	17	(0.43%)	28	81.85%	24	39,266	17	21-Jul-97	15	20.6
25	Company 25	66,493	15	62,984	21	30,131	24	(12.86%)	35	109.03%	26	52,828	14	02-Jan-80	7	20.7
26	Company 26	-	29	45,201	27	35,619	22	4.50%	11	26.90%	13	30,875	19	06-Dec-03	26	21.6
27	Company 27	-	29	51,362	23	35,635	21	5.84%	6	44.13%	17	30,000	21	10-Feb-08	35	21.6
28	Company 28	28,559	21	78,832	18	37,165	20	(12.63%)	34	112.11%	27	40,707	16	29-Jan-05	28	24
29	Company 29	17,418	23	20,970	34	19,830	32	(0.24%)	25	5.75%	6	18,871	32	08-Sep-99	23	24.6
30	Company 30	2,467	27	19,111	35	18,607	33	2.07%	17	2.70%	3	18,055	33	23-Oct-05	30	24.9
31	Company 31	40,751	19	51,390	22	14,727	34	(3.51%)	30	248.95%	34	16,420	34	08-Sep-98	19	26
32	Company 32	-	29	24,178	32	22,151	28	(0.25%)	26	9.15%	8	20,000	30	06-Mar-04	27	26.4
33	Company 33	11,118	25	50,640	24	21,395	30	(1.51%)	29	136.69%	30	21,387	28	23-Nov-98	21	26.6
34	Company 34	-	29	24,735	30	21,061	31	0.21%	24	17.45%	11	21,000	29	04-Jan-06	32	26.8
35	Company 35	-	29	49,305	26	14,481	35	1.61%	20	240.47%	33	29,812	23	12-Feb-02	25	26.9

Note: One company was not included in the ranking as it is GCC state owned company.
Ranking is based on financial statements as of FY 2014

Debt Restructuring Schemes Undertaken

	Company	Restructured Debt Amount (KD Mn)	Restructuring Options Used									Gain from Restructuring (KD Mn)
			Debt to Asset Swap	Debt to Equity Swap	Sale of Assets	Resch.	Debt Write-off	SPE	FSL Approval	Cash	Other	
1	Company 1	498.5				✓		✓				27.4
2	Company 18	260.2	✓	✓		✓	✓	✓	✓	✓		56.5
3	Company 16	147.4				✓						-
4	Company 13	121.5		✓		✓						16.3
5	Company 35	120.3	✓	✓								18.9
6	Company 25	94.3		✓	✓					✓		28.1
7	Company 11	90.1			✓							-
8	Company 21	68.1					✓					21.8
9	Company 19*	42.9			✓					✓		-
10	Company 24	35.5	✓			✓	✓			✓		3.9
12	Company 28	20.9	✓						✓			4.6
12	Company 10	17.2			✓					✓		-
13	Company 15	6.1									✓	-

** To be implemented in FY 2015*

The most common route followed was rescheduling of debt & cash settlement of the same. The next common options were debt equity swaps, debt assets swap and asset sales. Third in line was and debt write-off. There were only two cases where the FSL route was utilized.

Company 1

2008

Debt increased from KD 543.3 Mn in FY 2007 to KD 798.4 Mn in FY 2008. Defaulted on KD 55.3 Mn. The company appointed HSBC as its financial advisor & debt restructuring plan discussions are held to reach a solution.

2009

The company finalized a debt restructuring plan covering almost all its outstanding debt thus ending the default that rose in FY 2008. (1)

2010

The new facilities became effective on 21st January 2010 when the group met all of the conditions which included completion of relevant documentation, obtaining satisfactory legal opinions & achieving specified thresholds for grant of security.

2011

The company requested deferral on principle repayments from the lenders which they agreed to. New discussions were held to arrive to a new suitable debt restructuring plan.

2012

Debt restructuring plan was represented to the lenders. The plan involved creating an asset special purpose entity (Asset SPE).

2013

Debt restructuring plan was implemented & debt was transferred to the Asset SPE along with the assets. The company is now debt free. A net gain of KD 27.4 Mn was recognized from the restructuring plan. (2)

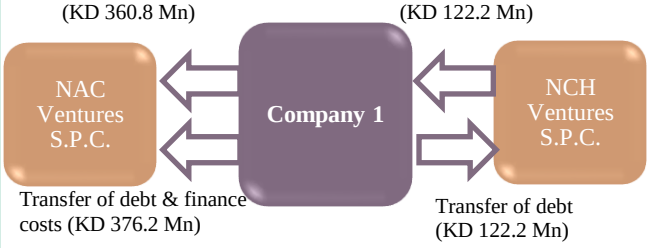
2014

The company is debt free.

1

- The debt restructuring plan was accomplished through obtaining new facilities to pay & replace almost all its outstanding debt.
- The new facilities were granted a security over substantially all of Group's non-strategic investments of "Principle Investments & Group Treasury", "Proprietary Trading" & "Real Estate" business segments. The new facilities will be repayable over three years starting FY 2009.
- The terms of the facilities include restrictions such as payment of dividends. Also, if capital is increased then the net proceeds should be used to settle debt. Further, if the company didn't settle 40% of the original principle by the 3rd year, then the lenders have the option to convert debt into shares in the company.

2



Company 18

2008

Defaulted on KD 51.6 Mn & suspended the payments.

2009

On 12th January, the company appointed CBK Capital as its financial advisor. Later on, 3 banks contracted to reschedule payments amounted to KD 136.0 Mn.

2010

Defaulted on KD 47.2 Mn & suspended the payments. Breached a covenant of the debt agreement concerning the preservation of key financial ratios at certain level. The management is in negotiations with its lenders to restructure their debt.

2011

Defaulted on KD 234.7 Mn & suspended the payments.
Breached a covenant of the debt agreement concerning the preservation of key financial ratios at certain level.

2012

2

Debt restructuring was finalized & debt amounting to KD 172.1 Mn was settled by debt to equity swap & rescheduling of payments.

2013

The application to join Financial Stability Law was approved. All remaining lenders joined the debt restructuring agreement. Settlement of KD 62.0 Mn by debt to asset & equity swap.

2014

Debt amounting to KD 161.0 Mn remained from the prior rescheduled debt agreements.

2

- Transfer of the restructured debt of KD 35.3 Mn to a Special Purpose Entity (SPE). Further, the company transferred investment properties & available for sale investments with carrying value of KD 24.5 Mn & KD 4.5 Mn respectively.
- Share capital increase of KD 14.3 Mn offsetting debt by the same amount.
- Write off of debt of KD 12.3 Mn.
- Total gain of KD 31.0 Mn as follows:
    - KD 12.3 Mn from writing off the debt.
    - KD 12.4 Mn from waiving finance costs.
    - KD 4.1 Mn from investment properties gain.
    - KD 2.2 Mn from available for sale investments.

Company 13

2008

Debt increased from KD 111.9 Mn in FY 2007 to KD 154.2 Mn in FY 2008.
Debt restructuring plan was developed but delayed later due to the financial crisis.

2009

Debt restructuring plan was resumed & the terms of the plan were finalized between the company & the lenders by rescheduling the debt.

2010

The company's executive management changed during the year which resulted in discarding the existing debt restructure plan & a new plan development was in process.

2011

A new debt restructuring plan was represented to the lenders with new terms including business model restructuring.

1

2012

Lenders signed the final agreement of debt restructuring plan by debt to equity swap & it was implemented. Further, the company implemented the business model restructuring. Moreover, the company redeemed part of its bonds & wrote-off accumulated losses.

2013

The company met the covenants of the debt structuring agreement which are:

- Current assets to total liabilities to exceed 10%
- Total liabilities to total equity not to exceed 2x
- Minimum coverage of assets pledged is 120% of the outstanding debt

2014

The company met the covenants of the debt structuring agreement. Debt matures by December FY 2017 with rolling over option of KD 11.0 Mn.

1

- Company 13 has become the first investment company in Kuwait to complete its debt restructure **successfully**.
- The business model was implemented which had a positive impact on results.
- The debt restructuring plan was implemented by increasing share capital by KD 50 Mn to new shareholders & KD 15 Mn to existing shareholders while the remaining debt was rescheduled over five years period.
- The restructuring resulted in a gain of KD 11.4 Mn.
- The company redeemed its bonds & recorded a gain of KD 2.5 Mn.
- The company wrote-off accumulated losses by KD 68.6 Mn against the share capital.

Micro Economic Analysis

Pre-crisis, the investment sector in Kuwait enjoyed a successful period where it had a vital impact on the economy. In FY 2008 as the global financial crisis hit, the investment sector of Kuwait took an adverse turn and has been struggling since with no 'real' recovery of the sector.

The investment sector of Kuwait comprises of 82 investment companies as per the CBK list of September 2015. Of this 29 companies are listed on Kuwait Stock Exchange while 53 companies are not. However, the analysis was conducted on only 36 investment companies [29 listed companies and 7 unlisted companies] as the remaining companies' financial statements were not available. The financial statements of the 29 listed companies were obtained through the KSE website while the financial statements of the 7 unlisted companies were obtained through their company websites. The remaining 46 unlisted companies' financial statements were not found on their website or any other source and were not provided by CMA or CBK, in spite of a letter from UIC requesting the same.

The analysis was conducted based on five years: pre-crisis, crisis, post-crisis and the present (FY 2014 being the present as the latest available financial statements for all the companies were as of FY 2014). For the sake of comparison, the analysis categorized the various revenues of each company into four categories: investment revenues, real estate revenues, fees revenues and other revenues.

The following are the four categories with their components:

1) Investment Revenues:

1. Realized gain or loss on sale of investments
2. Unrealized gain or loss on investments
3. Change in fair value of investments
4. Dividends income
5. Investment income
6. Share of results of associates
7. Gain or loss of sale or acquisition of subsidiaries and associates
8. Gain or loss on foreign exchange trading

2) Real Estate Revenues:

1. Rental income
2. Sale of construction materials
3. Profit or loss on sale of properties held for trading
4. Gain or loss on valuation of lands transferred to properties under development
5. Gain or loss on sale of investment properties and properties under development
6. Gain or loss on sale of lands
7. Change in fair value of investment properties and trading properties

3) Fees Revenues:

1. Incentive fees
2. Management, placement and subscription fees
3. Advisory and consulting fees

4) Other Revenues:

1. Financing income
2. Gain or loss on disposal of property and equipment
3. Reversal of provisions
4. Gain or loss on debt settlement
5. Gross margins from sale
6. Service revenue (commercial activities)
7. Debt write-off
8. Other income

The analysis also categorized expenses into four categories: Finance costs, G&A expenses, impairments and other expenses.

The following are the four categories with their components:

1) Finance Costs.

2) G&A Expenses:

1. G&A expenses
2. Staff costs

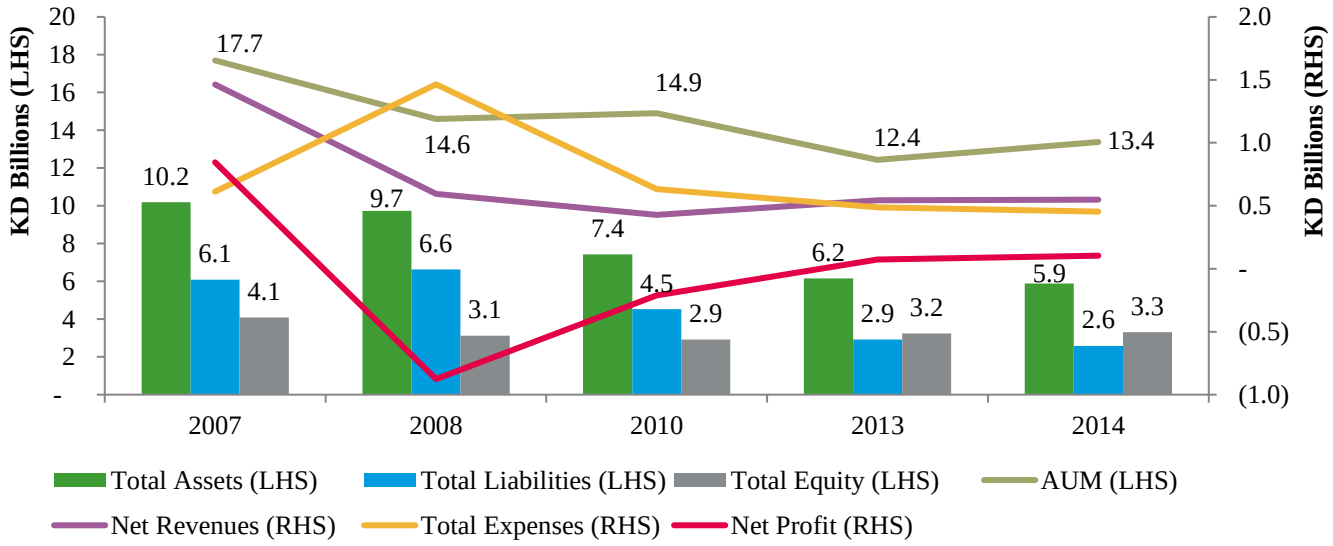
3) Impairments:

1. Impairment of available for sale investments
2. Impairment of investments in associates
3. Impairment of goodwill
4. Impairment of financial investments
5. Impairment of Sukuk investments
6. Impairment of receivables & other assets
7. Impairment of intangible assets
8. Impairment of investment properties
9. Impairment losses

4) Other Expenses:

1. Consulting costs
2. Service costs
3. Management, placement & subscription cost
4. Depreciation & amortization
5. Gain or loss from foreign exchange
6. Investment expenses
7. Maintenance & insurance expenses
8. Provision for doubtful debts
9. Provision for impairment
10. Gain on foreign currency translation
11. Other expenses

Figure 1: Analyzed Investment Companies



Note 1: Availability financial statements: FY 2007 – 32 companies. FY 2008 – 33 companies. FY 2010 – 34 companies. FY 2013 & FY 2014 – 36 companies. Some unlisted companies did not have their financial statements on their websites for the years FY 2007, 2008 and 2010. Listed companies analyzed had financial statements for all the years available.

Note 2: Availability AUM in companies: FY 2007 – 24 companies. FY 2008 – 25 companies. FY 2010 – 26 companies. FY 2013 – 27 companies. FY 2014 – 28 companies.

Pre-crisis (FY 2007) the investment sector in Kuwait enjoyed a fruitful year. Net revenues amounted to KD 1.5 Bn and total expenses amounted to KD 611.9 Mn resulting in KD 845.2 Mn of net profits, after taxes and discontinued operations gains.

Investment revenues in FY 2007 comprised 56.3% of net revenues amounting to KD 824.4 Mn, while the remaining net revenues of KD 638.8 Mn came from real estate revenues, fees revenues and other revenues. Further, total assets amounted to KD 10.2 Bn of which KD 5.2 Bn were investments available for sale, investments at fair value through profit or loss and investments in associates and unconsolidated subsidiaries. Total liabilities amounted to KD 6.1 Bn of which KD 3.9 Bn comprised of debt. Total equity amounted to KD 4.1 Bn of which KD 1.6 Bn and KD 1.1 Bn comprised of capital and retained earnings respectively. Based on the financials of the analyzed companies only 24 companies disclosed their AUMs which amounted to KD 17.7 Bn.

FY 2008 witnessed the global financial crisis and the investment sector in Kuwait took a massive hit along with the rest of the world. Total revenues dropped by 59.4% to KD 593.7 Mn and total expenses rose by 139.3% to KD 1.5 Bn mainly due to companies having taken impairments of KD 832.5 Mn on their investments. This resulted in a net loss of KD (876.2) Mn after taxes. Investment revenues fell to KD (63.5) Mn while other sources of revenues slightly increased to KD 657.2 Mn due to an increase in real estate revenues compared to FY 2007. Further, total assets amounted to KD 9.7 Bn of which KD 4.7 Bn were investments available for sale, investments at fair value through profit or loss and investments in associates and unconsolidated subsidiaries that fell by KD 0.5 Bn compared to FY 2007. Total liabilities increased to KD 6.6 Bn as debt increased during the year to KD 4.5 Bn and as a result finance costs increased to KD 343.8 Mn. Total equity decreased to KD 3.1 Bn as retained earnings amounted to KD (302.4) Mn due to losses exhibited by the companies as a result of the crisis. Based on the financials of the analyzed companies only 25 companies disclosed their AUMs which amounted to KD 14.6 Bn resulting in a decrease of KD 3.1 Bn compared to FY 2007.

Since the crisis, the investment sector marginally recovered compared to pre-crisis levels. In FY 2014 net revenues amounted to KD 548.7 Mn and total expenses amounted to KD 453.6 Mn resulting of KD 104.1 Mn in net profits, after taxes and discontinued operations gains. 29 companies out of the 36 companies achieved profits in FY 2014, but the scale of net profits decreased since FY 2007 as the sector took a hit from the crisis. Further, some of those 29 companies achieved net profits due to one-time impact in FY 2014 such as Company 6 and Company 10. Investment revenues comprised of 33.6% of net revenues amounting to KD 184.3 Mn while the remaining net revenues of KD 364.3 Mn came from real estate revenues, fees revenues and other revenues. Further, total assets amounted to KD 5.9 Bn which dropped by 42.2% compared to FY 2007. Total assets comprised of KD 3.3 Bn of investments available for sale, investments at fair value through profit or loss and investments in associates and unconsolidated subsidiaries that fell by KD 2.0 Bn compared to FY 2007. Total liabilities decreased to KD 2.6 Bn, due to a decrease in debt by 57.6% since FY 2007, as companies settled their debts and some carried out debt restructuring measures. As a result, finance costs declined by 80.3% to KD 65.5 Mn compared to FY 2007. Total equity declined to KD 3.3 Bn as retained earnings and reserves decreased to KD (65.0) Mn compared to FY 2007. Further, companies' reserves decreased from KD 6.1 Bn in FY 2007 to KD 1.0 Bn in FY 2014 as they wrote-off accumulated loses against their reserves. Based on the analyzed companies only 28 companies disclosed their AUMs which amounted to KD 13.4 Bn. AUM has declined from FY 2007 levels.

From pre-crisis till the present, the investment sector net revenues witnessed a huge decline along with profits generated from the sector. However, as net revenues declined from FY 2007 to FY 2014, the general and administrative expenses and other expenses witnessed an increase of 31.7% and 90.3% respectively. Overall, some companies have reduced their G&A expenses and other expenses, however some other companies had their G&A expenses significantly increased as they shifted from investment activities to other activities notably Company 21, while few companies had an increase in their depreciation as they shifted to asset intensive business lines for e.g. Company 21's German furniture manufacturing subsidiary and Company 17's hospitality subsidiary. With this falling scale of top line revenues & increased costs, serious thought needs to be given to the current business model and service offerings provided by these investment companies. Larger successful companies have the opportunities to consider buying distressed assets that can be turned around. In addition, scope exists for consolidation in the sector, where weaker companies can be merged with stronger companies.

Comparison of Investment Revenues between FY 2007 & FY 2014

In FY 2007, out of 32 companies only 11 companies' main source of revenues came from investment revenues of which only 4 companies had investment revenues greater than 70% of net revenues. Total investments revenues amounted to KD 824.4 Mn which comprised 56.3% of net revenues. Real estate revenues – 8.7%, fees revenues – 12.2% and other revenues – 22.7% made up the rest. The below presented chart illustrates the proportionate rates of investment revenues that are greater than 7% of total investment revenues: 5 investment companies out of the 32 investment companies contributed more than 7% of investment revenues in FY 2007 with a GCC state owned company contributing the highest proportion of 16.3%.

In FY 2014, out of 36 companies, only 13 companies' main source of revenues came from investment revenues of which 8 companies had investment revenues greater than 70% of net revenues. Total investments revenues amounted to KD 184.3 Mn which comprised of 33.6% of net revenues. Real estate revenues – 9.7%, fees revenues – 11.2% and other revenues – 45.5% made up the rest. Investment revenues as proportion to net revenues had decreased by 22.7% compared to FY 2007. The below chart illustrates the proportionate rates of investment revenues that are greater than 7% of total investment revenues: Only 3 investment companies out of the 36 investment companies contributed more than 7% of investment revenues in FY 2014 with GCC owned company contributing to the half of it at 52.0% (GCC state owned company is the biggest company as to assets size, equity size and share capital among the analyzed companies).

Figure 2: Break-up of Total Companies' Net Revenues

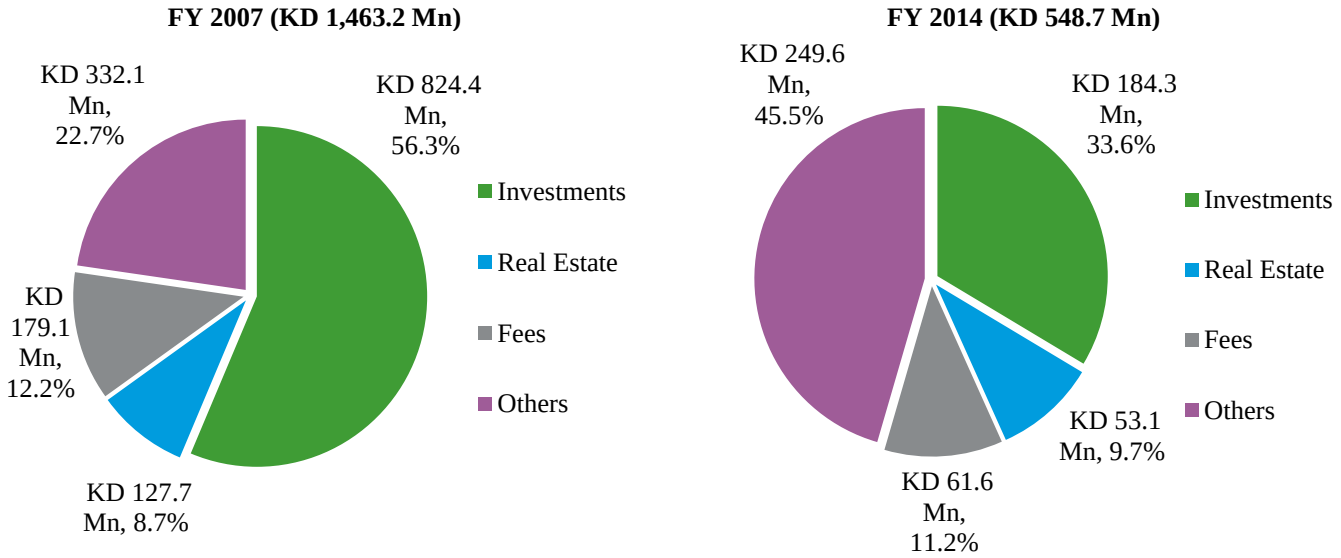
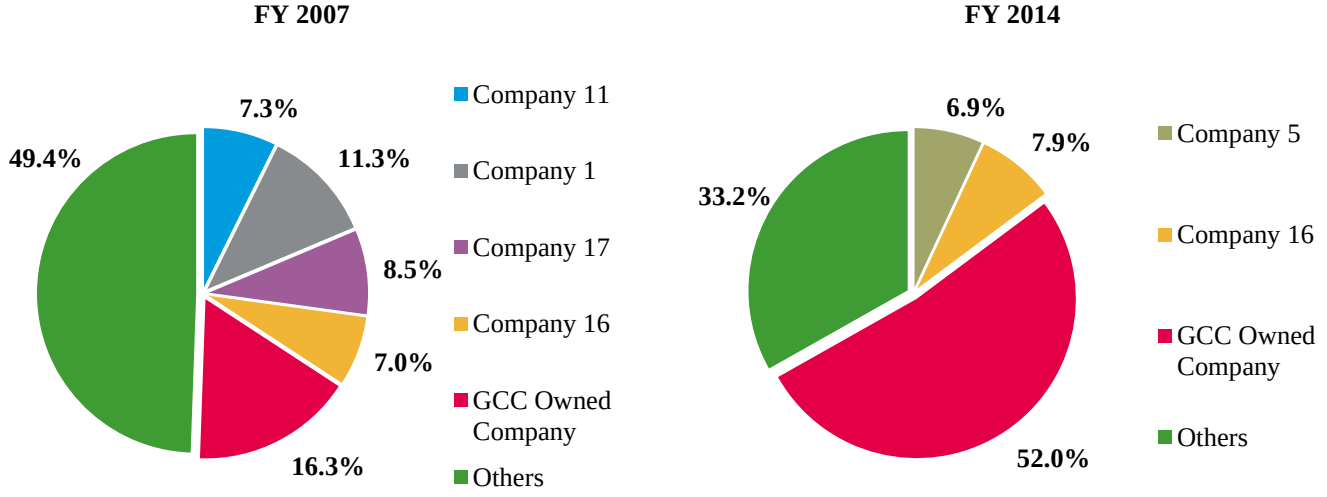


Figure 3: Companies' Investment Revenues with Proportion Greater than 7% of Sector's Investment Revenues



Business Model Adaptation:

The decrease in investment revenues percentage as of net revenues is a result of some companies shifting their focus to other areas. The following are a few examples:

Company 21:

In FY 2007, Company 21 net revenues amounted to KD 39.0 Mn of which 61.7% were from investment revenues, 24.2% from financing revenues, 11.5% from fees revenues and 2.6% from real estate revenues. Since the crisis, Company 21's investment revenues have been on a declining trend. In FY 2014, Company 21's main source of income comprised of retail revenues from the sale of wood processing machines, tools, etc. which contributed to 97.4% while investment revenues contributed to only 2.3%. Investments on Company 21's balance sheet declined from KD 127.1 Mn in FY 2007 to KD 16.5 Mn in FY 2014 mainly due to debt settlement, debt to asset swap, carried out by the company in FY 2013. On the other hand, plant, property and equipment increased from KD 1.1 Mn to KD 24.8 Mn indicating the shift in the company's activities.

Company 18:

Company 18 has been a diversified company since FY 2007 with revenue streams from financing, real estate, construction material sales, fees, leasing of motor vehicles and investments. Investment revenues comprised of 25.8% of net revenues (leasing of motor vehicles revenues – 22.7%, real estate and construction revenues – 21.9%, financing revenues – 18.5%, other revenues – 11.1%). However after the crisis, Company 18's contribution of investment revenues dropped to only 7.2% of net revenues while leasing of motor vehicles revenues and real estate & construction revenues contributions increased to 42.9% and 30.4% of net revenues respectively. Although Company 18 is a diversified company, it chose to move away from investments and rather focus on revenue streams that are minimal in risk. However leverage is still high.

Company 17:

In FY 2007, Company 17 had diversified sources of revenues of investment revenues (57.6%), real estate revenues (31.0%), financing revenues (4.5%), fees revenues (2.6%), hotel service revenues (0.8%) and other revenues (3.4%). In FY 2014, the company's main source of revenues is from hotel services which comprises of 96.7% of net revenues while investment revenues comprises of only 5.1%. Currently Company 17 is not considered to be a diversified company as it moved away from all revenues to focus solely on hotel services revenues. Investments on Company 17's balance sheet declined from KD 259.9 Mn in FY 2007 to KD 65.4 Mn in FY 2014 while plant, property and equipment increased from KD 46.9 Mn in FY 2007 to KD 165.1 Mn in FY 2014 indicating the shift in activities. However leverage is exceptionally high as it is the highest in the analyzed companies.

For more, please check the appendix as it contains individual company analysis of the 36 investment companies.

A Review of the Top 5 Companies based on the Ranking conducted on page 50:

Top 5 companies are among the financially sound companies (Tier 1) who have the least risk points among all the companies. They have received the least risk points based on their size, performance and incorporation year. A brief review of those companies for the year ended 2014: (Check the appendix for more information on them along with the other companies)

Company 1:

Company 4 was incorporated on 16th June 1998, listed on 26th May 2003 but then delisted on 19th June 2013. Company 4 is diversified with revenue streams from financing, rental, fees and investment revenues. Company 4 with KD 1.2 Bn AUM generated fees revenues of KD 14.9 Mn. Further, Company 4 is a debt free company with total assets of KD 100.2 Mn of which KD 54.6 Mn comprises of cash. Also, G&A expenses to total revenues was 48.3%.

Company 4 has sufficient cash with no debt obligations to invest in improvement of operations and expansion.

Company 2:

One of the first investment companies in Kuwait which was incorporated on 25th November 1961. Company 2 with total assets of KD 283.2 Mn of which KD 179.0 Mn comprises of investments and total equity of KD 168.6 Mn of which KD 55.1 Mn comprises of share capital. Total revenues of Company 2 amounted to KD 13.9 Mn of which KD 7.0 Mn and KD 6.3 Mn comprises of

investment revenues and fees revenues respectively. Further, Company 2's AUM amounted to KD 2.1 Bn in FY 2014, the second highest AUM among the companies analyzed. However, G&A expenses to total revenues was 42.6%.

Company 3:

Company 1 is a diversified company with revenue sources from investments, fees and real estate with a huge asset size and low leverage. Total assets of Company 1 amounted to KD 207.4 Mn of which investments available for sale and investments at fair value through profit or loss comprises of KD 139.3 Mn and KD 13.3 Mn respectively that generated total investment revenues of KD 4.3 Mn. Further, Company 1 possesses investment properties of KD 25.1 Mn which have been generating constant rental incomes throughout the years. In addition, Company 1's AUM amounted to KD 1.5 Bn that generated fees revenues of KD 5.1 Mn. Also, G&A expenses to total revenues was 29.2%.

Company 1 has the capability to take on debt to expand or acquire recession survivors (tier 2) or in distress companies (tier 3) companies that are struggling with operating their units to use their expertise to improve those units or companies and by doing so, Company 1 will be expanding as well of possibly gaining synergies as they could avoid G&A expenses related to the weaker company.

Company 4:

Company 3 is a diversified company that was incorporated on 17th August 1974. The revenue sources of Company 3 are financing, real estate, fees and investment revenues. Company 3's AUM amounted to KD 1.1 Bn from which it generated fees of KD 7.6 Mn. Further, total assets of Company 3 amounted to KD 145.0 Mn of which KD 103.0 Mn comprises of investments and total equity amounted to KD 109.9 Mn of which KD 53.1 Mn comprises of share capital. Also, G&A expenses to total revenues was 54.9%.

Company 5:

Company 5 incorporated on 3rd March 1997, is operated solely as an investment company. Total assets of Company 5 amounted to KD 253.3 Mn of which KD 242.9 Mn comprises of investments which generated investment revenues of KD 12.8 Mn. Further, Company 5's total equity amounted to KD 156.8 Mn of which share capital amounted to KD 31.2 Mn. In addition, Company 5's AUM amounted to KD 267.6 Mn which generated minimal fees revenues of KD 0.2 Mn. Further, Company 5's debt exposure was KD 75.3 Mn. Also, G&A expenses to total revenues was only 3.4%, which is exceptionally low compared to its peers.

Company 5 can assist recession survivors (tier 2) or in distress companies' (tier 3) investment units to improve them by acquiring distressed investment units from tier 2 and 3 companies, as it has the proficiency to improve it and expand its operations.

Recommendation and Opinions:
Financially Sound Companies (Tier 1):

1. Seek advisory from financial experts to identify possible takeover targets or viable units/distressed assets as they already have the adequate resources.
2. Acquire or merge with tier 2 and 3 companies in order to enlarge their market presence.
3. Acquire the assistance of financial experts to restructure debt and improve liquidity.
4. Provide soft loans in order to ease acquisitions and/or expanding their operations.
5. Review of G&A expenses, if applicable.

Recession Survivors (Tier 2 Companies):

1. Consider debt restructuring, if applicable.
2. Creation of a Troubled Asset Relief Program (TARP) modelled fund to buy illiquid assets that could be turned around.
3. Create a repository of minority stake investments carried across multiple companies that could be acquired by interested parties.
4. Review of G&A expenses, if applicable.

In Distress (Tier 3 Companies):

1. Compartmentalize business units of the company that can be salvaged or scaled up to be sold to tier 1 companies, if applicable.
2. Create a repository of minority stake investments carried across multiple companies that could be acquired by interested parties.
3. Forced orderly wind up, if applicable.
4. Review of G&A expenses, if applicable

BOOK 1 – CURRENT STATUS

C - CRISES

The investment sector in Kuwait took an enormous hit in FY 2008 and did not fully recover since then as a result of the 2008 global financial crisis. This study covered 10 crises, Kuwait and international crisis, which occurred during the past decades. The study of each crisis comprised of a background, its impact on the economy, the solutions implemented and the consequences of those solutions on the economy. Subsequently, each crisis was linked to Kuwait and resonances to Kuwait were established. The following matrix is a summary of all the resonance to Kuwait from each crisis:

(Refer to the appendix for a detailed study of each crisis).

Kuwait Crisis	
Margin Trading Rules	1. Margin trading should be closely followed and key indicators should be monitored to warn central banks before any drastic action is required.
Souk Al Manakh 1982	1. Restrictions on the stock exchange trading. 2. Enhancing the efficiency of the stock exchange. 3. Regular inspections on the quality of the listed companies.
International Crisis	
Energy Crisis	1. High dependence on a single natural resource can over expose an economy to price shocks. 2. High oil prices lead to overall global commodity inflation 3. Spikes in oil prices tend to be associated with recessions due to reduced discretionary spending.
Japanese Asset Bubble	1. Real estate prices are at an all-time high in Kuwait 2. Post bubble collapses can have lasting effects on Investor Confidence 3. Rapid decline in real estate values could have an adverse effect on the Banking system
Asian Currency Crisis	1. Regional or global credit crunches could send a contagion to Kuwait resulting in a decline in value of the KD. Although the CBK generally defends the KD where earlier it used to be pegged to the USD and later to an undisclosed basket of currencies, it is not necessary that they may continue to do so given lower oil prices and continuous fall in forex reserves, could change CBK's strategy in the long term. 2. Crony Capitalism leads to a misallocation of investments, poor returns and reduced economic efficiency. 3. Authority by the government to intervene and enforce closure of insolvent financial institutions.
Russian Currency Crisis	1. Caution is advisable when countries are going through major transitions 2. Rules-of-thumb indicators in assessing the strength of a country's fundamentals may not always show the true picture 3. A fundamental inconsistency developed between the government's desire to vanquish inflation while maintaining large subsidies 4. A fixed exchange rate and a Central Bank willing to defend it could invite speculative attacks to the currency in light of lower sustained oil prices and burn rate of forex reserves. As an example, given the low oil prices, Saudi Arabia is burning through its foreign reserves at an unsustainable rate to maintain its peg against the dollar. However this has led the 12 month forward rate has rocketed from 3.7563 SAR to USD to 3.8494 SAR to USD, indicating a possible devaluation of 2.5% if the current scenario remains in the long term.
Dotcom Bubble	1. Unprecedented growth in prices for companies without any correlation to their fundamentals can have a lasting impact 2. Need to treat with caution with companies that are difficult to value
Housing Bubble & Subprime Mortgage Crisis	1. Swiftness in devising and implementing Trouble Asset Relief Program 2. Implementing American Recovery and Reinvestment Act (ARRA) to save and create jobs 3. Strict enforcement of corporate governance oversight 4. Oversight on compensation and compensation should be based on risk-adjusted performance 5. Dodd Frank Act 6. Purchasing toxic assets from the banks with public private investment programs

European Debt Crisis	1. Windfall revenues associated with asset price bubbles can be mistakenly taken as permanent 2. Clear structural reforms: bank restructuring and recapitalization; labor and product market competition; and pension system reform 3. Kuwait must at all costs avoid the fiscal profligacy of a country like Greece if it is to avoid painful fiscal retrenchment 4. Tax income should be introduced at levels sufficient to finance spending without undue dependence on oil or debt financing
Chinese Stock Market	1. Artificially lowering currency leads to cheaper exports and enhanced growth however any curb in growth rates can have a lasting effect. 2. Debt driven investment models with inflation rates artificially kept low could lead to high debt burdens in the event of subdued growth.

BOOK 2 – REVIVAL ROADMAP (SURVEY)

Contents

Introduction

This paper reports on the results of the Survey which was conducted as part of a larger mandate to identify possible measures to revitalize the investment sector in Kuwait. The survey is meant to identify a common set of generally useful solutions to boost the current financial systems. This survey should be viewed along with other consideration and research to enhance the understanding of Kuwait's market by providing information to help in assessing the situation and inspecting pitfalls within the Kuwait's investment sector.

The survey was conducted, in which questionnaires were addressed to a well representative set of institutional firms and received responses from 21 firms. Besides, several leading experts in companies of financial markets were contacted and responses from such leading businesses experts were incorporated. The questionnaire was designed to assess the impact of the 2008 financial crisis and to evaluate the measures required to improve the investment sector in Kuwait. The survey helped in accumulating a wide range of information which was collected and analyzed and areas of strength and weakness were identified in the Kuwait investment sector.

The information to be gathered by the survey was intended to help in:

1. Identifying a feasible set of indicators that aid in assessing the situation in Kuwait
2. Identifying the causes of the financial crisis of 2008 and measures that need to be taken to protect the sector from such contagions in the future.
3. Assessing the state of development in Kuwait and the way forward

Survey Design and Response

The survey is used to garner the respondent's view on corporate needs and practices. It focused on identifying aggregations of information, that is, summation of the information on the financial condition of individual financial institution.

The design of the survey and identification of reasons/indicators were a result of meetings/discussions/consultations with CEOs/CFOs/CCOs from a well-represented set of 21 institutional firms and 10 leading experts of the financial services industry. These consultations contributed importantly to the understanding of the views of financial supervisors, national policy officials, and the private sector. They also provide an opportunity to improve a list of indicators to be surveyed and learn more about their uses and potential reliability.

The survey questionnaire was in two parts namely the "General" and "Tackling Crisis". General part was answered by the corporate s whereas the tackling crisis part was answered by the corporates and the experts within the financial services industry. The format of the Questionnaire shared with respondents is annexed herewith.

The "General" part of the survey questionnaire is intended to address various aspects of the company such as business segments, organizational structure, corporate governance, board of directors' details and company policies. The responses from this part were used to understand the entire gambit of services that investment companies offer, USPs that they offer (if any), governance structure followed, independence of the board, transparency and adequacy of reporting lines for compliance.

Whereas the "Tackling Crisis" part of the survey questionnaire is regarding the impact of the financial global crisis of 2008 on Kuwait and the difficulties faced by the investment sector in Kuwait. Further, it explores the necessary measures that need to be taken by companies and the necessary role of the government during the crisis. The responses, both the corporate view and expert view, from this part was used to understand the impact of the crisis on the market, the weakness in the market structure as well as government regulations and the avenues that will aid market's growth.

The responses on both parts were gathered, presented and analyzed, to understand reasons for the present dwindling status of the investment sector and measures to revitalize the same.

Survey results:

General

Areas of Operations (Figure 8a)

Respondents of the survey come from various investment backgrounds and cover various areas of operation across investment companies in Kuwait. 81% of the respondents have at least one area of operation that includes asset management for investment funds and separately managed accounts and direct investment in private equity. Other major common areas of operations of the respondents include direct investing in real estate and listed equities. The remaining services include research and advisory, investment banking, financing, treasury operations, brokerage services and custody based lending. Investment sector is overly crowded with companies who do not differentiate amongst themselves, as they provide similar operations to clients. Further, investment companies generally do not provide any exclusive operations. Rather they provide several services instead of focusing and developing upon a unique differentiated service in the sector. Also, some investment companies provide services to clients in specific operational areas, that generates returns lower than their cost of capital.

Self-rated Corporate Governance Practices (Figure 8b)

Levels of corporate governance in Kuwait require an improvement.

Amongst the respondents of the survey, companies that believe their corporate governance practices are excellent stood at 30% while 50% believe their levels of corporate governance level are good. The remaining respondents believe their governance practices require an improvement. However, survey respondents unanimously indicated levels of corporate governance need to be raised in Kuwait to meet international standards.

Board of Director's Functions

67% of the respondents of the survey indicated that the size of their board comprises of circa 6 to 8 members while 29% of the survey respondents indicate their board size is 3 to 5 members (Figure 8c). However, only 5% of the respondents indicate their board size to exceed 8 members.

Importance of fostering Independent Board Members

In terms of board tenure, 85% of respondents indicated tenure for their board of directors to be three years or more while the remaining 15% equally indicate board tenure to be either permanent, one year or as per need (Figure 8d). 58% of the survey respondents indicate that frequency of board meeting to be quarterly whereas 20% indicate that board meetings are conducted on a need based. Moreover, 13% of respondents indicate monthly board meeting (Figure 8e).

Survey results regarding independence of boards in Kuwait indicate that only 5% have boards with more than 50% independent directors (Figure 9a). Whereas in US 98.2% of S&P 500 companies have boards with more than 50% independent directors according to the Wall Street Journal. In Kuwait, 38% of companies have boards with 20% to 30% of independent directors while 14% of the companies have no independent directors.

Only 81% of the respondents have provided information regarding director's remuneration. Of this, 65% of respondents indicated director's remuneration to be performance based whereas 29% respondents indicate director's remuneration is fixed (Figure 9b). Only 86% of the respondents responded to question regarding the components of director's remuneration and all of responses indicate remuneration is cash based. Stock options were not given as a part of the remuneration package (Figure 9c).

Reporting Lines:

Improve CRO reporting to the Board rather than CEO

Survey results suggests circa 46% of the chief risk officers reports to the board whereas circa 35% report to the CEO, however, only 19% report to audit and risk committees (Figure 9d). 74% of the respondents indicate that the general counsel/legal department reports to the CEO while 21% of the respondents indicate that the council reports to the board of directors (Figure 9e).

CEO as Board of Directors:

CEO remuneration decided by the board. Need to foster greater share bolder participation and consensus for such approvals.

48% of the respondents indicated that the CEO is a part of their board of directors (Figure 9f). With regards to the remuneration package of the CEO, 85% of the survey respondents indicated that their remunerations are decided by the board of directors (Remuneration committee) while 10% indicated that a remuneration decision is on the basis of majority shareholder approval (Figure 10b).

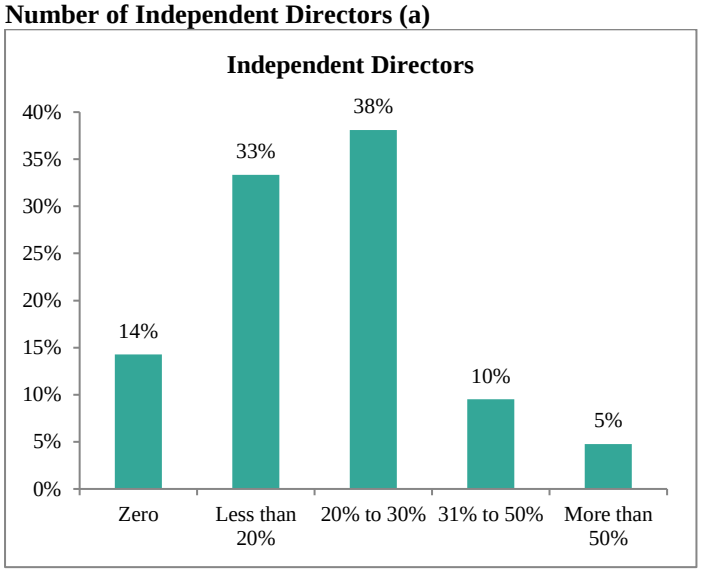
Monitoring of Related Party Transactions and Composition of the C-Team & Director's remuneration:

Improving transparency and reporting of related party transactions

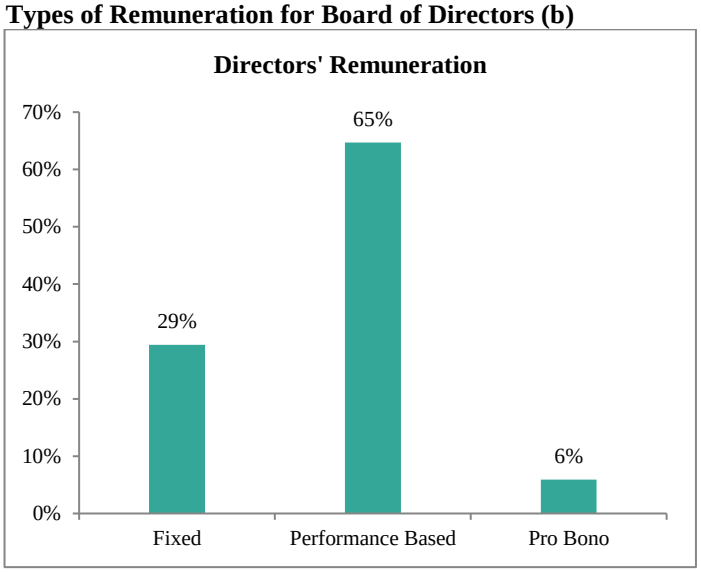
85% of the respondents agreed that their related party transactions are monitored and disclosed to the shareholders (Figure 10a). 90% of the company's C-Team and Directors' annual remunerations consists of Stock grants/options (Figure 10c).

Figure 5: General Survey

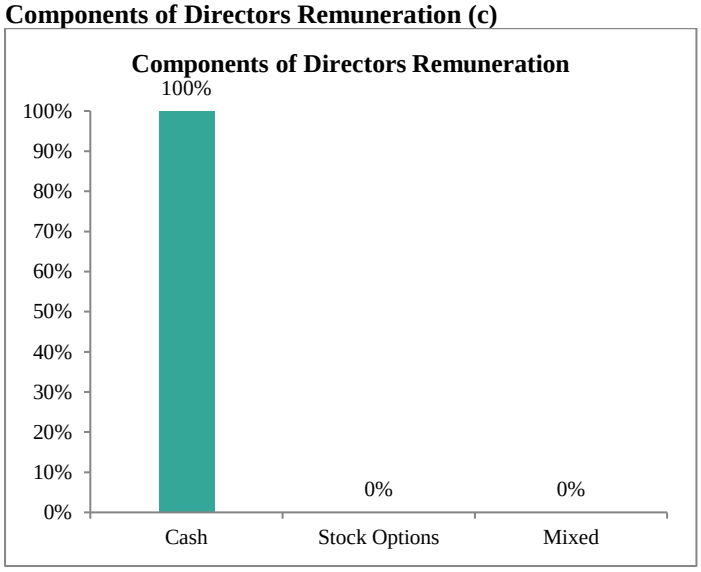
Number of Independent Directors (a)



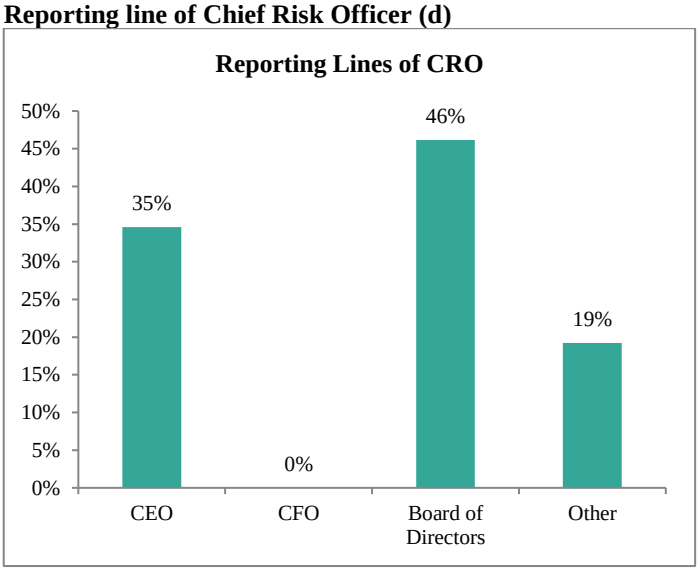
Types of Remuneration for Board of Directors (b)



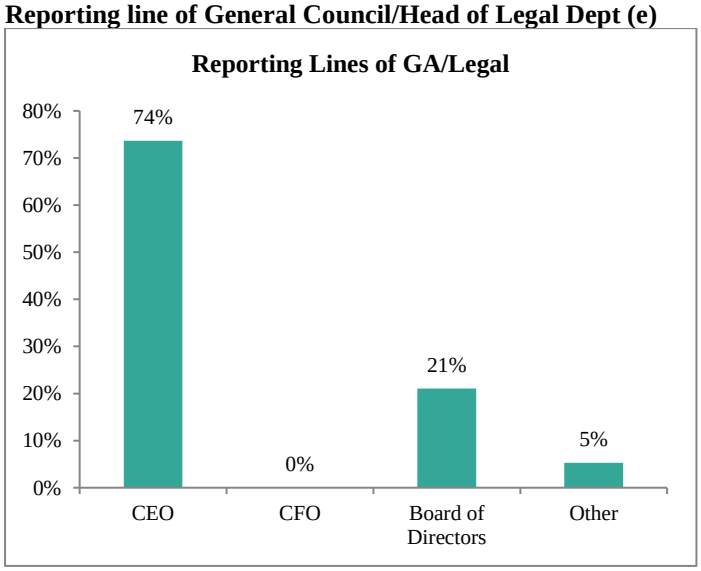
Components of Directors Remuneration (c)



Reporting line of Chief Risk Officer (d)



Reporting line of General Council/Head of Legal Dept (e)



CEO as Member of Board of Directors (f)

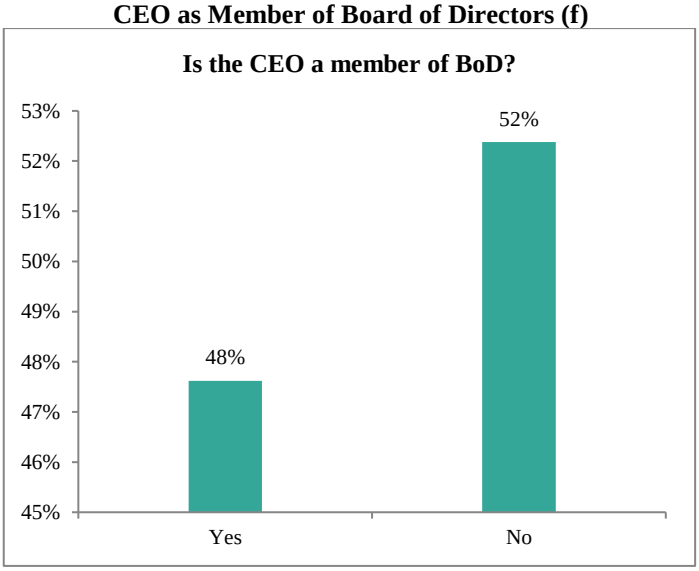
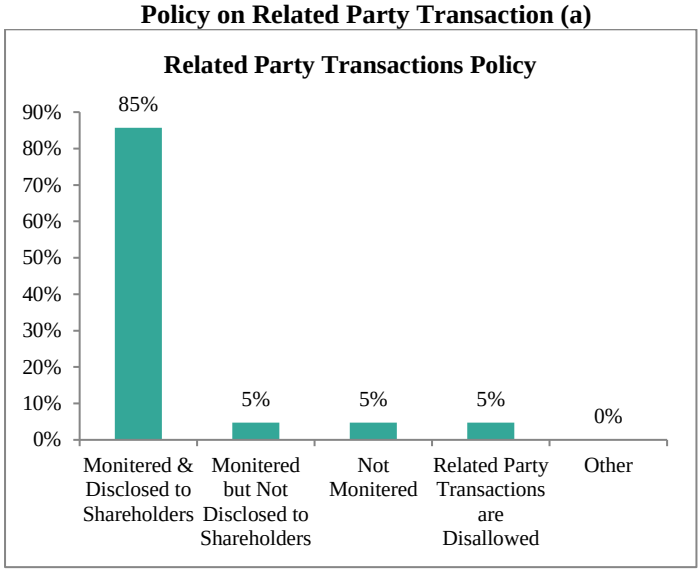
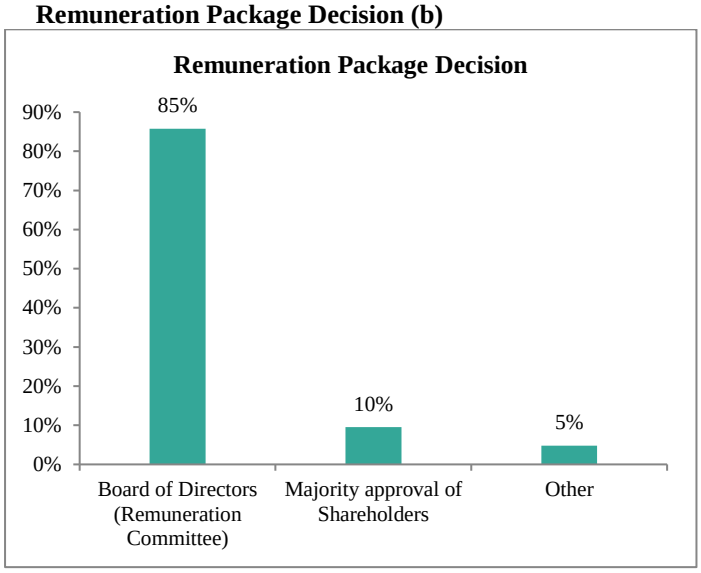


Figure 10: General Survey

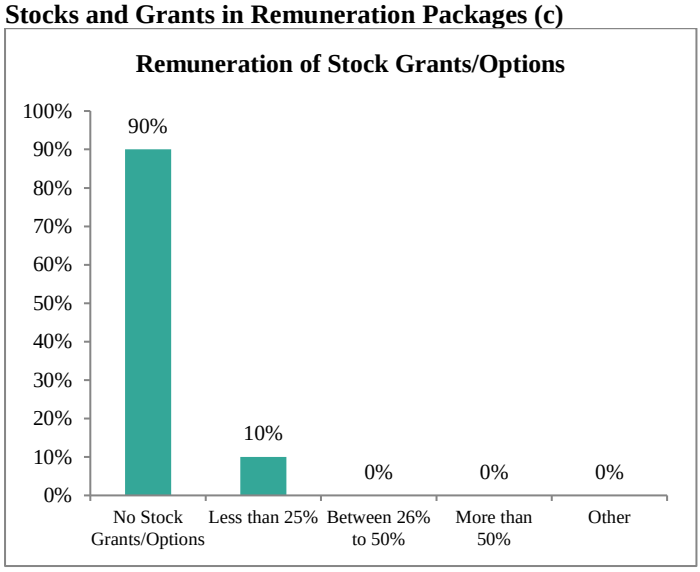
Policy on Related Party Transaction (a)



Remuneration Package Decision (b)



Stocks and Grants in Remuneration Packages (c)



Tackling Crises

Reasons for the severity of the crisis in Kuwait (Figure 11a):

Deficient risk management; Asset and liability mismatch; agency issue

Results of the survey as per corporate view (90%) and expert view (89%) indicated that most significant reason for the severity of the crisis is deficient risk management practices. Corporate view dominate mismatch in asset vs liability duration (85%), conflict of interest/agency issues (75%) along with management remuneration based on short-term targets (70%) and cross ownership by dominant groups (70%) as other key reasons for the severity of the crisis in Kuwait.

Moreover, expert opinion indicated that management remuneration based on short-term targets (80%) was a key reason along with mismatch in asset vs liability duration (60%) and conflict of interest/agency issues (60%)

Respondents indicated during the financial crisis their assets had largely became illiquid and the prices for all the assets had severely fallen leading to lack of funds to settle the liabilities hence the liquidity shortage. Deficiencies in risk management which led to misidentification and inadequate risk assessment of the risks involved with investments contributed to the increased severity of the crisis.

Moreover, respondents suggested that bad quality of assets, credit squeeze by all banking institutions driving asset prices down along with outdated laws and lack of research and investor education on financial wellbeing of companies were other factors that fueled the crisis in Kuwait.

Possible effective rescue measures for the investment sector during crisis (Figure 11b)

Sound Bankruptcy laws & Emergency credit lines

Sound bankruptcy laws to facilitate liquidation and reorganization would have been the most effective rescue measure as indicated by majority of the corporate and expert respondents (90% and 80% respectively). Kuwait is currently working with the World Bank to draft bankruptcy legislation designed to assist businesses to recover from financial difficulties rather than be liquidated. Respondents indicated the current bankruptcy law covered under Code No.68 of 1980 of Kuwait does not meet international standards in covering current range of companies, or in restructuring debt. Other possible effective rescue measures as suggested per the corporate view (60%) and expert view (40%) is access to emergency credit lines from banks and financial institutions. Moreover, respondents also suggested increase in government participation in the local market and infrastructure spending would have been effective rescue measure for the investment sector in Kuwait.

Effectiveness of higher capitalization as an effective measure to protect companies from future crisis (Figure 11c)

Not highly seconded measure however a larger cap is necessitated to ensure corporate governance is in place and its cost covered

Majority of the survey respondents, both corporate (61%) and expert (63%) views, suggested raising the level of minimum capital to be an ineffective measure to prevent companies from future crisis. However, amongst those who suggested that minimum capital should be raised for investment companies KD 25 million was deemed most appropriate.

Respondents indicated that it matters what you do with the capital rather than how much you have as increased capital cannot be a substitute for sound management practices. Nevertheless, in order to comply with increased regulators requirement and to implement the suggested improvements, a certain minimum threshold level of capital should be in place. Companies that cannot fulfill such compliance should essentially operate under "hedge fund structure". Other respondents suggested that minimum capital is to be in place then it should be calculated specifically based on the activities of each investment company.

Proactive measure to prevent future crisis (Figure 12a)

Ensure enhancement of transparency and reporting standards; align remuneration to long term risk-adjusted performance

In order to protect the domestic industry from future crisis, 95% corporate respondents of the survey indicated that improved transparency and reporting standards (adoption of GIPS standard) as the most significant measure. Similarly, all of the experts indicated improved transparency and reporting standards (adoption of GIPS standard) and alignment of remuneration to long-term risk adjusted performance as the most significant factor to prevent future crises.

Moreover, the corporate respondents indicate other significant measures such as enforcement of market discipline (89%) and regulatory oversight on risk management models (84%) are required for better prevention.

Furthermore, 80% of expert respondents suggests enlargement of investment tools and instruments along with regulatory oversight on risk management models as a key measure for better protection.

Reason for stagnating growth within the sector (Figure 12b)

Majority of the corporate (85%) and expert (67%) survey respondents suggests that exposure to illiquid investments as the most significant factor that is prolonging/stagnating growth in investment sector. Corporate survey respondents suggested inadequate restructuring options (75%) and the legislations (71%) as key significant reasons for stagnation. Moreover, 56% of expert survey respondents indicated lack of access to financing, pessimistic future outlook, lack of access to financing and legislation as key significant reasons for stagnation.

Exposure to illiquid investments; inadequate restructuring options

Respondents indicated by survey respondents own investments that are essentially minor stakes in several companies however the intrinsic value of the companies have significantly dropped and are hence considered illiquid. Moreover, respondents mentioned other illiquid investments which do retain value but however are unmarketable. A market maker who can ideally pool all such shareholding details and can create off-selling mechanism in order to consolidate shareholding.

Another key factor as indicated by respondents is Kuwait's future outlook, which largely appears unenthusiastic as holding back the investment sector. Moreover, lack of financing, pessimistic future, development projects with long gestation periods, inadequate restructuring options available and incentive to idle are other significant factors that are inhibiting growth.

Possible solutions for bankrupt companies during the crisis (Figure 13a)

Majority of the corporate (58%) and expert respondents (55%) indicated the need for a new bankruptcy legislation facilitating orderly liquidation or reorganization in Kuwait as a solution for bankrupt companies. As stated above, Kuwait has already commenced procedures to design a bankruptcy law in association with World Bank.

Establish a new bankruptcy legislation

Other solutions indicated by the respondents include consolidation of the investment sector in Kuwait

Major areas that require improvement to aid in growth (Figure 13b)

25% of the corporate and 24% of the expert survey respondents suggested infrastructure project financing as the most significant area for improvements as a long term strategy for Kuwait's development. Investing in infrastructure projects would lead to growth in the private sector, which is part of Kuwait's long term development plan. Circa 20% of respondents of both sets, corporate and experts, indicated development of new ventures, innovative products, housing and greenfield participants as areas that require improvement to aid growth.

Increase the number of infrastructure projects

Effectiveness of the CMA on a cost/benefit basis (Figure 13c)

43% of the corporate respondents have indicated the effectiveness of the CMA in terms of legislation to be either most favorable or moderately favorable. However, in terms of governance, 57% of corporate respondents suggests that CMA's effectiveness has been most favorable.

60% of the expert respondents have indicated the effectiveness of the CMA in terms of legislation to be most favorable. However, in terms of governance, only 30% of expert respondents suggests that CMA's effectiveness has been most favorable.

Improve effectiveness of the CMA

CMA – Issues and areas of improvement (Open ended questions)

Survey respondents indicated that when the CMA published the most recent draft law only 10 days were allowed to respond with changes for a relatively large set of rules. The draft law was only made available in Arabic. Further, respondents indicated that although a high level of English speaking staff are responsible for compliance at companies, certain portions of the CMA websites, awareness campaigns, investor education, seminars and other lectures are only available in Arabic.

Hire diverse talent and improve procedural speed

Additionally, survey respondents suggested that CMA requires better understanding of international standards in implementation of capital market laws in Kuwait. Staff members in CMA should be qualified and trained for the job entailed, which is largely not the case. They also suggested staff members were found to lack awareness regarding the laws issued by CMA, lack of awareness of the general market conditions and investment products. CMA requires more experienced executives with investment experience who understand the international standards for better effective implementation of the CMA law.

Another key issue raised by survey respondents relates to examining and applying methods of the CMA along with the speed of the procedures. Survey respondents suggested CMA should assign each company with a direct representative at the CMA to enhance efficiency and enable a faster turnaround.

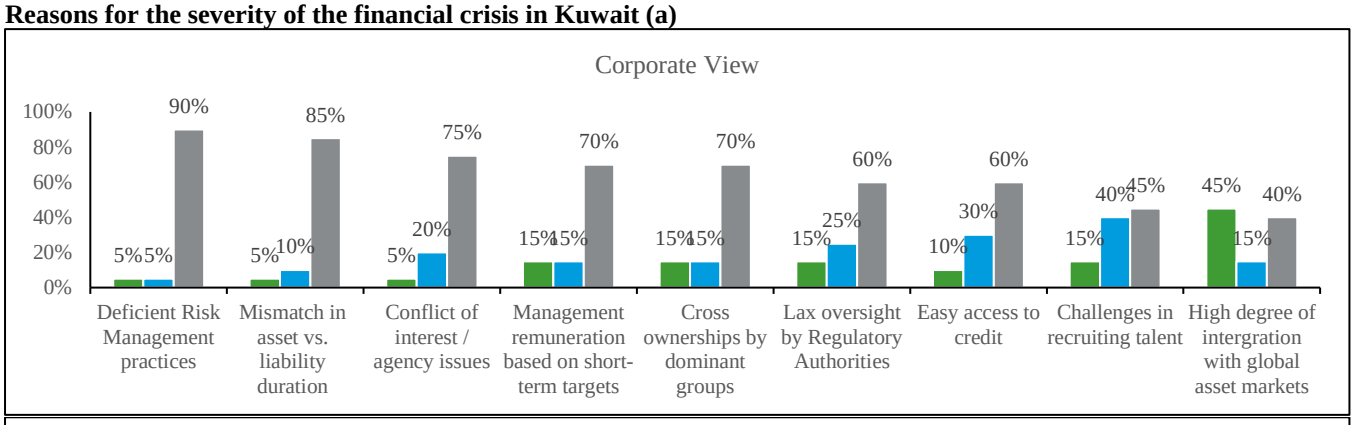
Classify & tailor rules for each company	Respondents strongly indicated CMA should create categories for companies according to the company's business model. CMA should not follow a one size fits all policy for all companies. CMA should set different levels of compliance for the companies, based on its category. CMA should also rationalize the cost of compliance imposed due to regulations and revisions of regulations. Survey respondents indicated the requirement of quarterly risk reports is standardized for all companies under its purview without considering the business model of each company. Clear guidelines are unavailable and upon being questioned CMA's responses are not precise. Moreover, the tendency of CMA to provide instructions over the telephone instead of published form of communication for specific cases has led to reduced effectiveness of the CMA. Moreover, CMA should improve facilitation legislators and business sectors to improve and create advanced economic legislations. Furthermore, survey respondents suggest stricter implementation of regulations and set up examples of violators. Also, pursue former perpetrators of financial misconduct either through prosecution and industry bans.

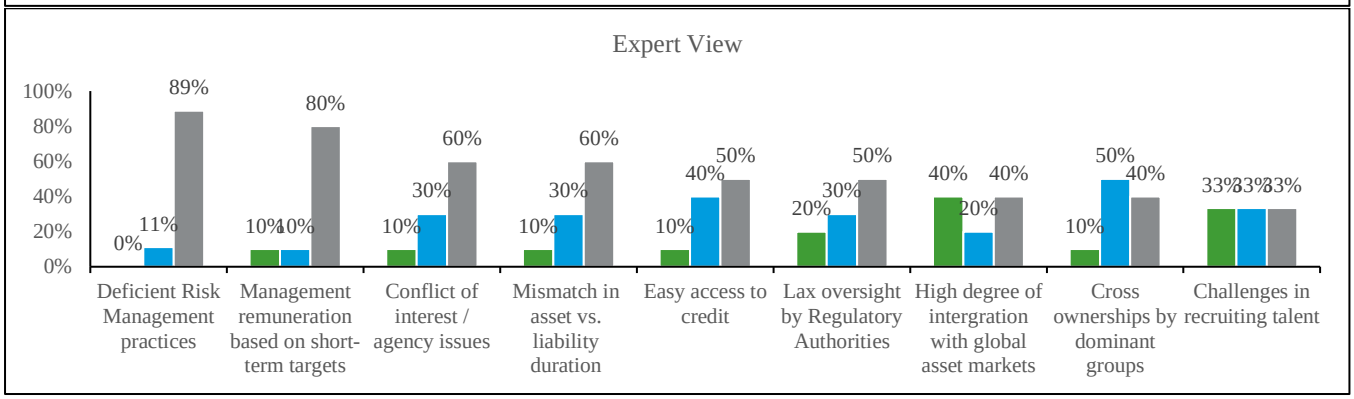
Government measures that should have been taken to prevent the 2008 contagion (Open-ended questions)

a. Enhance legal system by the following
    a. Introduction of the bankruptcy laws
    b. Introduction of troubled assets management programs
    c. Enhancement of laws to ensure heads of risk departments and board members have adequate relevant experience and enforce prosecution for perpetuators
    d. Foster creative investment schemes such as establishment of SPV in Kuwait to enhance foreign investment in Kuwait
b. Increase fiscal spending and speedy execution of public private partnership (PPP) projects to help restore normalcy
c. Create Financial center similar to Dubai International Financial Center and Qatar Financial Center
d. Quick recapitalization of large firms

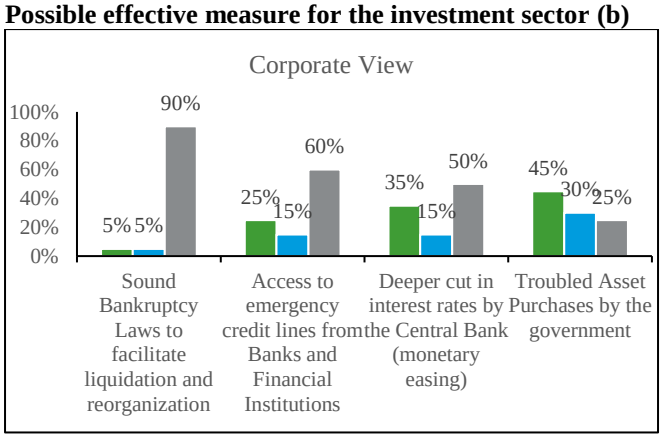
Figure 11: Tackling Crises Survey

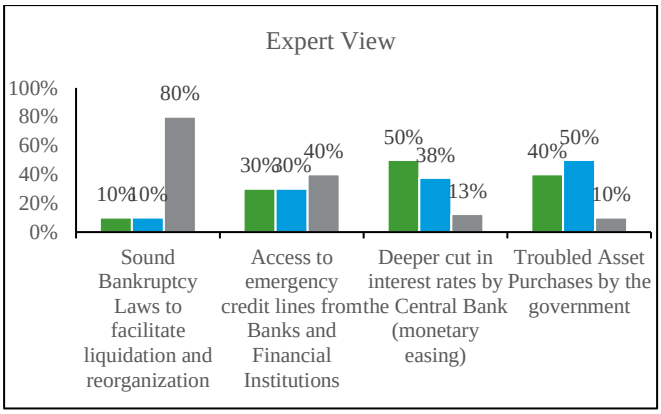
Reasons for the severity of the financial crisis in Kuwait (a)



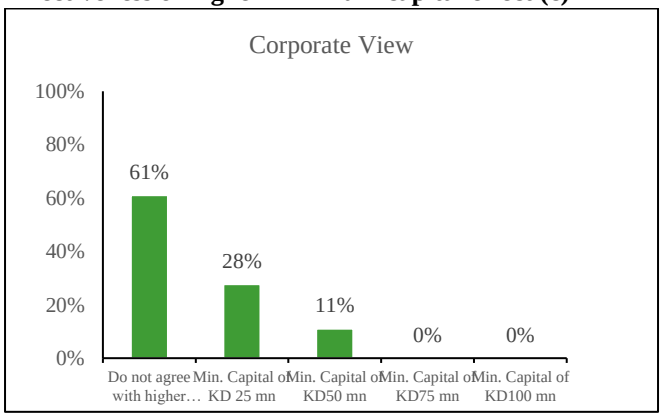


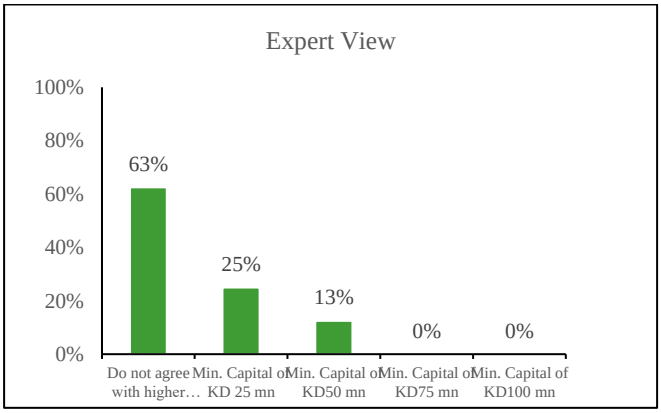
Possible effective measure for the investment sector (b)





Effectiveness of higher minimum capital effect (c)



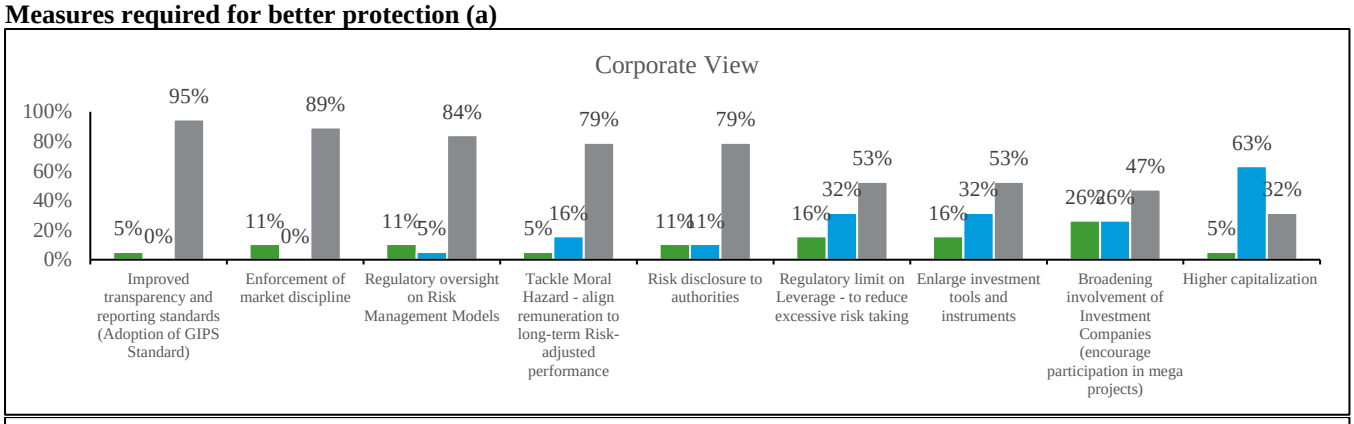


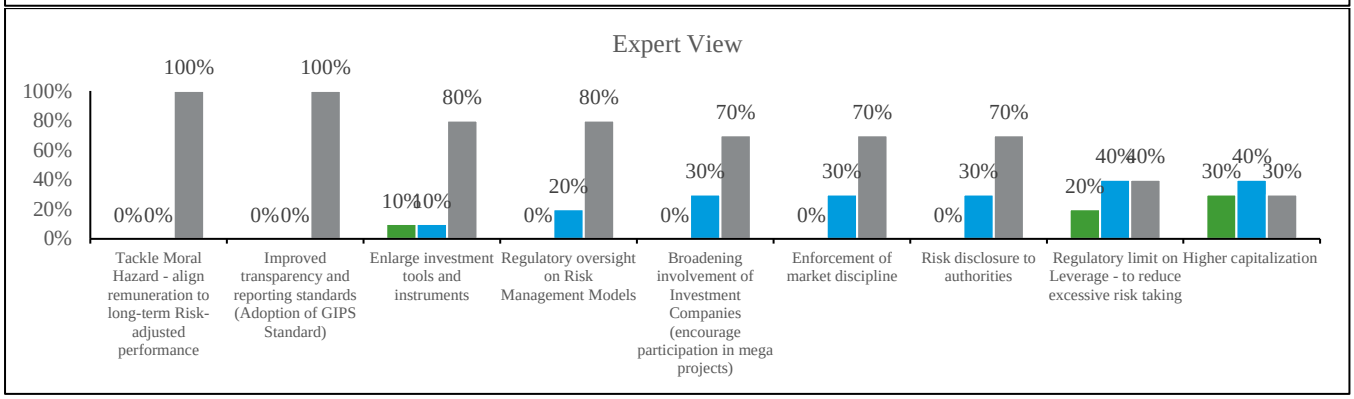
Legend

Least Significant	Moderately Significant	Most Significant

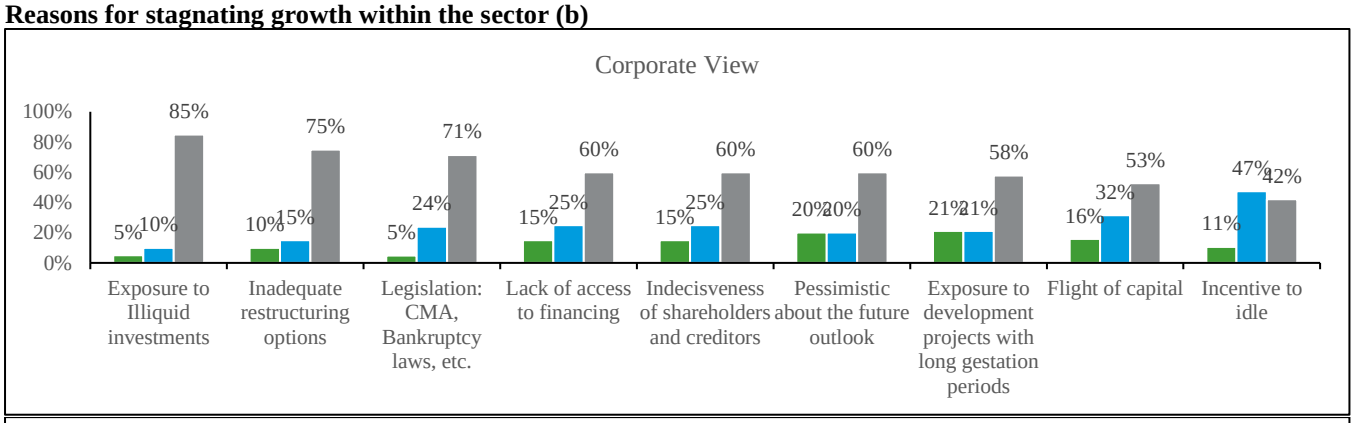
Figure 12: Tackling Crisis Survey

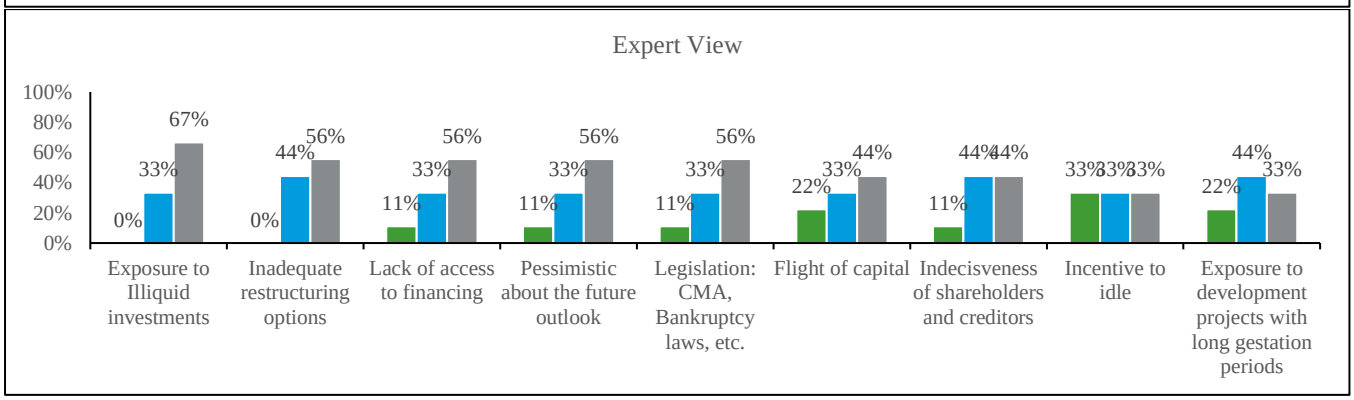
Measures required for better protection (a)





Reasons for stagnating growth within the sector (b)



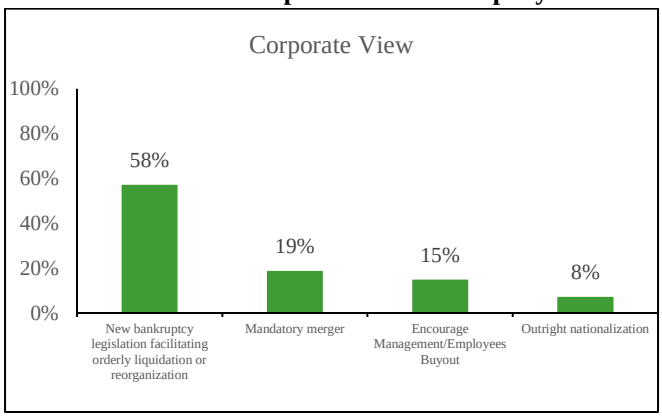


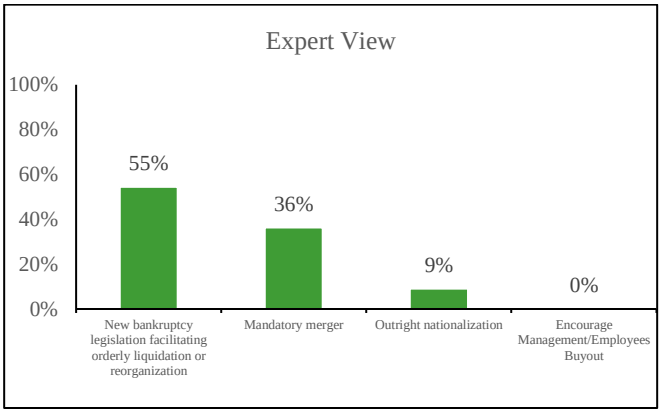
Legend

Least Significant	Moderately Significant	Most Significant

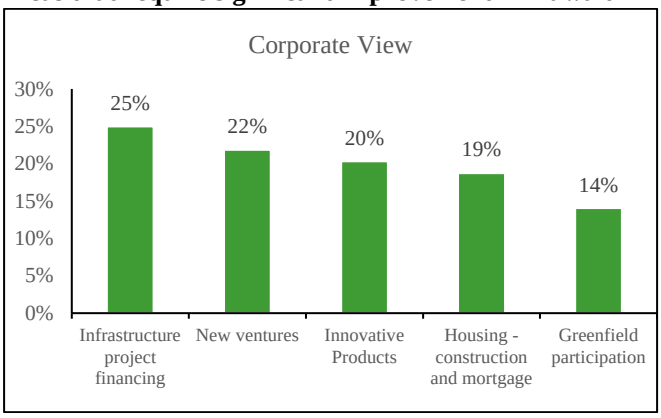
Figure 13: Tackling Crisis Survey

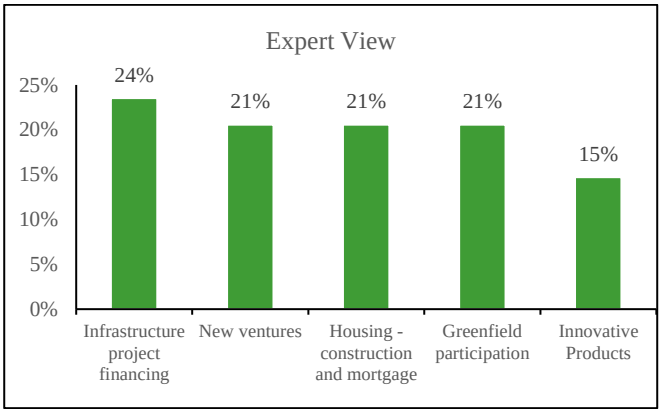
Solutions for the bankrupt investment company



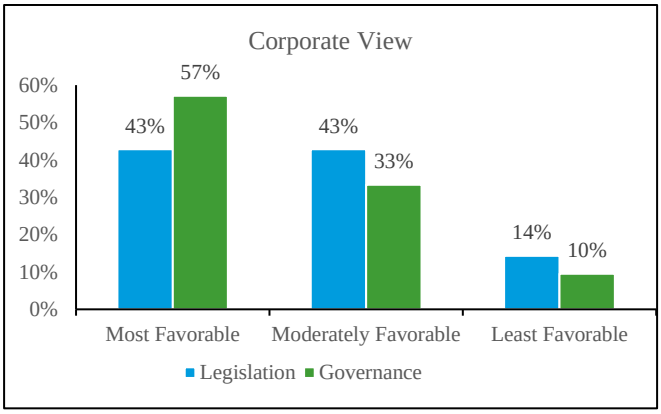


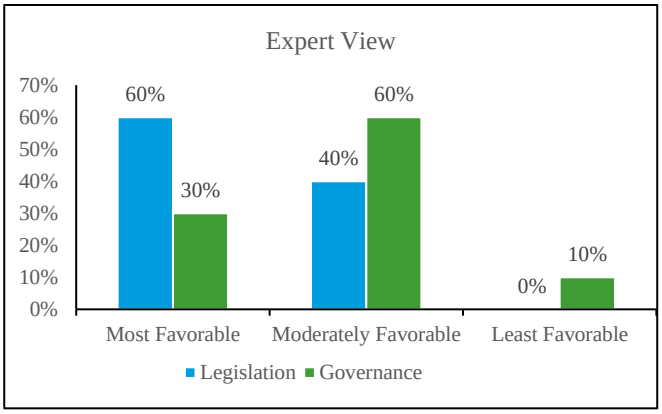
Areas that require significant improvement in Kuwait





Effectiveness of CMA on Cost/Benefit





Key Takeaway Points:

Regarding "General" Part:

1. Mandatory requirement for higher level of independent directors
2. Improvement innovative remuneration for CEOs; stock options and others that reward long term decision making
3. Merger of weaker companies with stronger companies
4. Clear investment mandate, philosophy and process to be developed by investment companies

Regarding "Tackling Crisis" Part:

1. Platform to market illiquid stakes; offsetting and enabling consolidation of stakes
2. Access to emergency credit lines (benchmark to international crisis)
3. Improve/ease supervision
    a. Targeted supervision (classify companies to levels & regulate)
    b. Assign representative from CMA who will be a one-period reference
    c. CMA to clarify in writing on company requests
4. Development of sound bankruptcy laws
5. Higher capital requirements taking account higher compliance cost
6. Insure staffing of key roles with qualified and experienced personnel
7. Provide more opportunities for the private sector
8. Improved transparency and reporting standards
9. Regulatory oversight over risk management models

Survey Opinion

Key Highlights

- Frequency of board meetings should be increased to a minimum of 6 on an annual basis
- Ensure dual reporting for Chief Risk Officer to the CEO and the Board to avoid corporate bureaucracy
- Clear definition of roles and responsibilities for CEO and chairman of the board
- Remuneration committee should be formed to ensure remuneration is performance based with periodic reviews
- Increase the percentage of independent board member to 75% in Kuwait in line with global standards to increase investor protection
- Ensure uninhibited access of the legal department to the board
- Full disclosure of related party transactions should be a stringent requirement
- Importance of risk management practices should be raised in Kuwait
- Kuwait should develop platforms to aggregate and sell illiquid investments
- Emergency credit lines should be handier
- Sound bankruptcy laws should be developed to facilitate liquidation and reorganization
- Infrastructure project financing is a key factor for long term strategy
- Minimum capital requirement to obtain an investment license should be raised to KD 25 Mn
- Improve the quality of personnel at CMA for the enhancement of the regulatory environment
- Investment firms should ensure management personnel are qualified and their efficiency should be monitored more closely

General

67% of the survey respondents suggested that the board size is between 6 to 8 board members. Research[1] studies indicated companies with smaller board members are more effective than larger board members. Smaller board members tend to discuss issues in depth with average board size being 6 to 10 depending on the size and complexity of the firm. While, CMA Kuwait did not specify an exact range for board members rather stated that sufficient board members are required based on the company's nature, complexity and members' responsibilities. In terms of board tenure, research[2] indicated board tenure to maximize its utilization by circa 9 years as tenures longer than 9 would raise concerns about innovation and independency. The S&P 500 companies had an average of 8.4 years for board members' tenure in FY 2014. Survey results indicate 86% of board tenure has 3 years or more which is considered reasonable for Kuwait's market. The Kuwaiti CMA requires a company to conduct a minimum of 6 board meetings annually with at least one quarterly meeting. However, survey respondents suggested 58% of their board members meet quarterly which does not meet CMA criteria.

Moreover, survey results suggest circa 46% of the chief risk officers reports to the board whereas circa 35% report to the CEO, however, only 11% report to audit and risk committees. Further, respondents also indicated the chief risk officer reports to both the CEO and the board of directors. Dual reporting of CRO's is common to address administrative and functional reporting hierarchies. CRO should report to both the board and the CEO and not have a compliance function or just a reporting function rather an effective function as they form another line of defense for the shareholder.[3]

Research[3] suggests although the CEO is aware of the day to day operations of the board but undue dependence on the CEO can signal weak corporate governance. It is also key that the board should not micro manage the day to day operations of the CEO. 52% of the survey respondents indicated the CEO is a part of the board of directors. The CEO should be a part of the board as it gives the board an inside perspective along with credibility to the CEO. However, his role should be clearly defined and he should not be able to influence the board.

85% respondents of the question suggested that the CEO remuneration was decided by the board. However, as per the CMA a remuneration committee should be held responsible to determine the remuneration of the CEO, board members and other executive management members which should be formed by the board of directors. The committee should be at least 3 members of which at least one of them is independent and the chairman of the committee should be a non-executive board member.

As per the U.S. Securities & Exchange Commission (SEC), at least 75% of board of directors of an investment company should be independent as well as the chairman to be independent in order to assure investor confidence through the exercise of independent judgement as they act on behalf of the investors to maximize shareholder value. The Kuwaiti CMA states that the majority of the board must be comprised of non-executive members with at least one independent member. However, the CMA also states that the independent members should not exceed more than half of board members. The gulf between SEC and CMA is evident and Kuwait should increase the number of independent directors in order to increase protection of shareholders' interests. As per the survey, only 5% of the respondents have boards with more than 50% independent directors.

74% of the respondents indicated the general counsel/legal department reports to the CEO while the rest of the respondents indicated the council has a dual reporting structure to the board of directors. Research[4] indicates that it is best practice to establish channels where the general counsel/head of Legal department can have direct access to the board without requiring prior approval from the CEO.

85% of the respondents agreed that their related party transactions are monitored and disclosed to the shareholders; meanwhile the remaining 5% of the respondents monitored the transactions but did not disclose it to the shareholders. Moreover, 5% of the respondents suggests that related party transactions are not monitored. It is the best practice to disclose all related party transactions to the shareholders[3].

According to the survey, 25% of the respondents suggested that the C-team and directors' annual remunerations consist of Stock grants/options. However, executive compensation should be linked to company performance as it prevents the managers from taking excessive risks with a short term focus and forces them to make long term focused decisions. Moreover, restricting executives to sell granted stock for a few years would give more incentive for the management to plan long term. Also, remuneration should be updated timely to keep managers and shareholders' interests in line[3].

Crisis

Corporate view of the survey respondents indicated deficient risk management practices and mismatch in asset vs liability duration as significant factors that were the reasons behind the severity of the financial crisis of 2008 in Kuwait. Whereas expert view indicated deficient risk management practices and management remuneration based on short term targets as the most significant reason. Moreover, exposure to illiquid investments was considered the most significant factor to stagnate growth by corporate and expert views. Platform needs to be created to aggregate and market illiquid stakes and provide access to emergency credit lines in order to improve liquidity.

Respondents indicated effective rescue measures for the investment sector and solutions for insolvent companies needs to commence with drafting and implementation of a sound bankruptcy law. Sound bankruptcy law would facilitate liquidation and reorganization.

Future effective measures as suggested by the respondents were alignment of remuneration to long term risk adjusted performance, improved transparency and enforcement of market discipline. These factors coupled with regulatory oversight and enlargement of investment tools and instruments are essential. Furthermore, majority of the survey respondents suggested infrastructure project financing as a significant area for improvements as a long term strategy for Kuwait's overall development. This is vital as Kuwait should have a long term focus as it does with its development plan and develop its non-oil sector.

Majority of the survey respondents suggested raising the level of minimum capital requirement would be an ineffective measure to prevent companies from future crises. Respondents indicated that it matters what you do with the capital rather than how much you have. However, the minimum capital requirement to issue investment licenses in Kuwait should increase from KD 15 Mn to KD 25 Mn in order meet higher cost associated with increased regulations.

Survey respondents suggest CMA needs to work more effectively. Key areas were lack of qualified or experienced staff at CMA, lack of regulatory documents in English, lack of investor education and seminars in English. Moreover, respondents suggested CMA follows one size fits all policy for all companies which needs to change. CMA should instead follow a targeted supervisor approach that would entail to classify companies across different levels and regulate them accordingly. Also, CMA should assign a representative who will be a reference and improve communications. Moreover, ensure staffing of key roles with qualified and experience personnel.

Sources:

[1] Wall Street Journal – "Smaller Board Get Bigger Returns", Real Business – "What Makes a Balanced Board of Directors" and Dorger Consulting – "Size Matters: Right Sizing Your Board of Directors".

[2] Effective Governance Consulting Firm – "Director Tenure", Harvard Law School – "Renewed Focus on Corporate Director Tenure" and Chief Executive – "Why 9 Years is a Lucky Number for Board Director Tenure and Effectiveness".

[3] Bank for International Settlements – "Corporate Governance Principles for Banks".

[4] Egon Zehnder Company – "The Role of the General Counsel with the Board of Directors" and Trustee - "Having the General Counsel's Back".

BOOK 3 – BENCHMARKING AND SUSTAINABILITY FRAMEWORK

INTRODUCTION

The investment sector in Kuwait encountered a diminishing trend post-global financial crisis as the performance of the analyzed investment companies deteriorated which is evident by examining the net profits of the sector during different periods:

Years	Pre-crisis 2007	During Crisis 2008	Post Crisis 2010	Present 2014
Profit reported (KD Mn)	845.2	(876.2)	(212.0)	104.1

During the crisis, investment asset value declined and investment companies had to take huge impairments. Since then, reforms such as Financial Stability Law (FSL) and Capital Market Authority (CMA) have been introduced, but have not facilitated recovery.

Companies with strong investment operations withstood the crisis and witnessed reduced profits. While other investment companies utilized different methods to withstand the crisis. Several investment companies survived by shifting their focus from investment to non-investment activities and with minimal exposure to investments or even none. Moreover, others exhibited profits using gains from one-time events after exhibiting operational losses.

As the financial crisis impacted the world, reforms have been undertaken by several countries. For instance, United States of America established the Troubled Assets Relief Program (TARP) while European Financial Stability Facility (EFSF) and European Financial Stabilization Mechanism (EFSM) were introduced to assist the European debt crisis. Furthermore, this study covers other reported crises during the past decades and consequent solutions adopted by governments to aid economic recovery. Kuwait must grasp the fact that it requires to devise and swiftly implement solutions in the time of crisis. Therefore, resonances to Kuwait from each crisis have been extracted to illustrate possible solutions.

Furthermore, the study looked at Kuwait from a 360º view to understand Kuwait's current position and the key areas which mandate attention and require enhancement. Moreover, a survey was conducted to gain a professional insight and attain strategic acumen from the C-level personnel and the industry experts. Some of the key insights from the experts, concerned the impact of the crisis, the solutions implemented and the solutions that should have been implemented. Furthermore, experts were asked to provide their opinion on the changes that need to be in place as a preventive measure in an event of the next crisis. Book 3 embodies the study's recommendations and conclusions regarding the investment sector based on the thorough understanding and in-depth analysis of the macro level and micro level economy of Kuwait.

Recommendations for Kuwait's Investment Sector	
Consolidate the Investment Sector	1. Design a viable framework for the purpose of mergers and acquisitions among investment companies 2. Closure of non-viable investment companies/funds and "zombie investment companies" 3. Consolidate the investment sector using Union of Investment Companies as a representative trade body. Based on the study conducted the following are the recommendations for each tier of companies **Financially Sound Companies (Tier 1)** 1. Seek advisory from financial experts to identify possible takeover targets or viable units/distressed assets as they already have the adequate resources, if applicable 2. Acquire or merge with tier 2 and 3 companies in order to enlarge market presence 3. Acquire the assistance of financial experts to restructure debt, improve liquidity and focus on operations 4. Provision of soft loans in order to ease acquisitions and/or expanding their operations 5. Review of G&A expenses, if applicable **Recession Survivors Companies (Tier 2)** 1. Consider debt restructuring, if applicable 2. Creation of a Troubled Asset Relief Program (TARP) modelled fund to buy illiquid assets that could be turned around 3. Review of G&A expenses, if applicable **In Distress Companies (Tier 3)** 1. Compartmentalize business units of the company that can be salvaged or scaled up to be sold to tier 1 companies, if applicable 2. Create a repository of minority stake investments carried across multiple companies that could be acquired by interested parties 3. Forced orderly wind up, if applicable 1. Review of G&A expenses, if applicable
Raise Minimum Capital	1. Increase the minimum capital required to acquire/retain the investment license from KD 15 Mn to **KD 25 Mn** will help increase the size of the financial buffer and quality of the loss bearing equity enabling a stronger financial system. 2. Enables recruiting talent and to comply with significant corporate governance requirements under CMA
Debt Promotion & Product Innovation	1. Promote issuance of **debt instruments** including Sukuk to create a smooth alternative method to raise funds and support capable companies to contribute in managing issues. 2. Promote securitization as a means to develop the debt instruments to enhance liquidity 3. Consider forming Real Estate Investment Trusts to widen the market 4. Improve technical innovation for the investment companies in Kuwait

Government	1. Improve the current platform that enables to quickly device and implement relief programs such as TARP in an event of a crisis 2. Provide private sector with more opportunities and responsibility to contribute to reduce reliance on the government 3. Facilitate the private sector to take on state owned enterprises that will ensure adequate return on capital by privatizing the same 4. Build strong, coherent, and long-term frameworks, including binding legislation and to increase the influence of the regulatory agencies to help 5. Develop a fair competitive environment, establish clear distinction in roles and jurisdiction for all regulatory bodies 6. Improve the capabilities of the national citizens along with improved employment opportunities.
Central Bank of Kuwait	1. Establish clear and well defined roles with increased accountability 2. Set-up a Financial Reporting Review to enhance quality of audit of the company and at regulatory level 3. Establish saving structure for individuals and encourage saving to create opportunities for institutional investors
Capital Markets Authority	1. Apply a phased approach for the introduction of corporate governance for better compliance and applicability 2. Create categories for companies that fall under CMA with varying disclosure requirement for effective applicability rather than one size fits all approach 3. Create a system where there is a representative at the regulatory level for every company who acts as a one-point reference for enhancing efficiency 4. Ensure substance over form for compliance. As an example appointing an investor relations officer does not translate into information being shared 5. Introduction of regulations and procedures regarding Qualified Foreign Financial Institutions to enhance market performance 6. Raise levels of disclosure, enhance efforts to improve monitoring, strengthen compliance and enforce strict penalties on offenders 7. Improve investment performance disclosure standard by applying Global Investment Performance Standards for all investment companies that maintain funds or manage investments for others 8. Improve speed of procedures in gathering evidence and investigating into violations and methods of disseminating information through written communication rather than oral communication 9. Streamline certain permitted activities to be carried by registered person only 10. Encourage corporate governance research efforts by companies 11. CMA should increase efforts to educate investors, improve ease of access to reliable information and spread awareness regarding corporate governance 12. Introduction of “Workplace Quality Index” to promote the appeal of securities market to job seekers and lift its capacity to recruit qualified human resources 13. Focus on subsequent control and speed in responding to the requirements of companies

Kuwait Stock Exchange	1. Improve prevailing listing rules and requirements to include a focus on governance 2. Specific portion of IPOs should be allocated to Qualified Institutional Buyers to grow Institutional Investors in Kuwait 3. Encourage qualified private companies to list their shares in the market 4. Conduct awareness sessions to promote listing 5. Improve channels and ways of dissemination of information by the agencies towards all market participants 6. Improve the efficiency of the market making process and support the issuance of the new investment instruments
Company Level	1. Development of an Investment directive where the focus needs to be on long term goals that seeks to avoid unnecessary risk and volatility 2. Draw up a clear cut investment values that are managed and supported by the investment team where the focus would be on desired liquidity, diversification requirements, sector appetite and management style 3. Create investment policy that includes specific asset allocation and setting up investment structure 4. Risk management to be considered as a partner for investment 5. Introduce self-monitoring at the company level by registered persons to enhance investor protection 6. Improve the quality of all disclosures to enhance transparency for financial statements 7. Introduce performance monitoring committee at the company level to enhance performance levels through monitoring key performance indicators 8. Ensure board members with highest character and integrity along with experience and understanding of strategy and policy setting are chosen to enhance efficiency. 9. Increase board independence by hiring more independent board members 10. Ensure board audit committee is made responsible to oversee all audit and risk management functions 11. Set up and implement innovative remuneration packages to ensure CEO are driven by long term strategies 12. Strengthen investor confidence by improving the competency and eligibility standard of the registered persons
Macro-Level Reforms	1. Adopt a fair and transparent tax system to continue structural reform 2. Rationalize subsidies 3. Gradually reform electricity, water and energy subsidy process 4. Standardize the wage structure in the public sector 5. Contain public sector employment and future wage growth 6. Reassess the demographics, especially the peripheral ones 7. Infrastructure development with the rehabilitation of the ports, the establishment of more free trade zones, business tourism, exhibitions and the development of non-oil sectors to diversify sources of income and employment

KEY HIGHLIGHTS

- **Enhancing Kuwait's Capital market**
  Focal Point 1: Improve quality of licensed companies and registered persons and related Human Resources in the Capital Market
  Focal Point 2: Institutional investment development
  Focal Point 3: Developing the collective investment scheme segment
  Focal Point 4: Use of internationally accepted investment performance standards for client reporting
  Focal Point 5: Promote Issuance of sukuk and debt instruments
  Focal Point 6: Improve employment opportunities for citizens at licensed companies and the CMA
  Focal Point 7: Deepen the capital market to enhance its role in supporting the national economy

- **Investor Protection**
  Focal Point 1: Governance and disclosure
  Focal Point 2: Investment literacy and awareness of market participants
  Focal Point 3: Regulation

- Raise the level of minimum capital requirement to KD 25 Mn which would add barriers to entry for companies who intend to obtain investment licenses for non-investing activities and help in cleaning up the sector by eliminating companies that are not willing to increase the capital due to losses
- Raise awareness and encourage private companies to list on the stock exchange hence deepen the capital markets
- Certain activities should be carried out by registered persons and they should be deemed 'standard and fit'. Such as a status should be achievable only after a person meets a pre-defined criterion, examination requirements and continuing professional education
- More efficient regulatory oversight is required to prevent malpractices such as insider trading, incorrect information dissemination, collusions to affect trading or price levels along with sterner enforcement of laws and heftier penalties
- Introduce regulations and procedures regarding Qualified Foreign Financial Institutions
- Allotment of portions of the IPO's to Qualified Institutional Buyers
- Introduce and promote various financial instruments such as Real estate investment trust (REIT), debt instruments (Sukuk)
- Promote the use of internationally accepted investment performance standards
- Authority matrix should be more prevalently used in the organization structure to enhance their performance
- Emphasis should be focused on improving the levels of **required** disclosures to improve transparency and help in making better astute investment decisions. Disclosures such as:
  - Clear responsibilities of the board members
  - Independent board members
  - Periodic assessment of the effectiveness of the board and each board member
  - Periodic reviews on the effective board size
  - Periodic reviews of the appropriateness of the remuneration and the committee responsible
  - Audit committee with its charter, its members and their financial literacy along with frequency of their meetings
  - Detailed description of the risks and procedures in place to manage the risk
  - Review process of the internal controls within the company and the frequency of the meetings
  - Corporate governance oversight and the committee responsive to develop the guidelines
  - Roles of the members in the Audit committee and their relationship with each director along with frequency of their meetings
- Raise the standard for the availability of information in Kuwait by utilizing various bodies in Kuwait such as Union of Investment companies (UIC), Central Market Authority (CMA), Kuwait Stock Exchange (KSE) and Central Bank of Kuwait (CBK)
- Improvement and amendment of regulations to cover all aspects of investments
- Minimize restrictions and constraints of regulations that are withholding progress within the investment sector

- Clearer and more defined lines of jurisdiction for legislators
- Minimize contradiction amongst legislators
- Legislators should work within a stipulated time frame to:
    - gather evidence and investigate into a violation
    - reply to queries to reduce any time lag in order to help firms make investment decisions swiftly
- Legislators should improve their examining and applying methods in order to achieve higher completion rates
- Legislators should issue notices to zombie investment companies to start investing activities in order to retain their investment licenses
- Legislators should monitor implementation of the recommendations and solutions that will enable the investment sector to develop
- Education qualification of the personnel in the regulatory bodies need to be enhanced
- Enhanced investor education assists in regulation. supervision and enforcement
- Public Private Partnership should be promoted help to revitalize the investment sector
- Facilitate the private sector to take on state owned enterprises that will ensure an adequate return on capital by privatizing the same and enabling the same by easing business conditions and regulations

CREDIBLE CAPITAL MARKETS

Kuwait has been facing unprecedented changes both economically and financially due to multiple issues – global financial crisis of 2008, geopolitical tensions, and heightened fears of the next financial crisis due to slow growth in emerging markets and resulting fall in demand for oil. Add to this an oil supply glut coming from technological advances and further supply expected due to the lifting of sanctions against Iran and the result is out there for all to see – the extraordinary fall in the price of oil. Kuwait's economy is now at an inflection point. The country needs to now pursue a new strategy that pursues a sustainable transformation of productivity and investment to warrant growth, generate employment and deliver continued prosperity to its citizens.

With this as a background, spare a thought for the modern day economic and financial policy advisor. A wide array of innovative financial products have set the wheels of disruption turning, impacting Capital Raising (crowdfunding), Lending (alternate lending, virtual technologies such as Fintech), Investing Stock market (new market platforms) and Investment management (social trading and cloud computing). Further major modern economies have grown quite complex. With these in mind the most important function of the regulator should not be perfect decision making *but credibility*.

The investment sector is a key ingredient for the success of innovation and promotion of new ideas in Kuwait. The government of Kuwait enacted a law in April 2013 (law number 98/2013) to establish a National Fund for Small and Medium Enterprise Development (SME Fund) in Kuwait. The initiative was driven to battle unemployment amongst the Kuwaiti youth and to promote the private sector in Kuwait. The fund was resourced with capital of KD 2 Bn to support and finance ideas and projects by Kuwaiti nationals. The fund is equipped to finance up to 80% of capital for feasible and substantial projects.

Along with the government, the investment sector must play a critical role of intermediation to promote good ideas from the incubation stage to market stage. Kuwait must ensure to improve the platforms that enable funds to be set-up backed by angel investors/venture capitals to promote innovation. The investment sector should understand substantial it needs to play to help improve the private sector for the development of Kuwait.

For investors to be interested in the Kuwaiti financial market,

1. An overall sense of direction for the where the country is heading as a whole is important. At the end, investment is founded on expectations for the future.
2. A lack of policy credibility would hinder acceptance by the market. Whether it is interest rate hikes, debt bailouts, energy price reforms, potential privatization of state owned enterprises etc, transparency or corporate governance, the credibility of the policy makers adds weight for the market to take it seriously.
3. The quality of staff at the policy makers need to be reviewed for qualification, age, experience and remuneration. After all they would be the ones steering one of the GCC's oldest stock markets.
4. The quality of companies currently listed on the KSE need to be reviewed considering the sheer quantity of companies as opposed to overall market capitalization and value traded. A comparison of Kuwait's market cap and value traded vis-à-vis other key GCC markets is stated below:

Country	Market Cap ($ Bn)*	Value Traded ($ Bn)*	No. of companies*
Saudi	422	440	172
Dubai	82	41	59
Qatar	152	26	43
Abu Dhabi	117	16	68
Kuwait	87	13	203

** Data based on FY 2015*

Two new entrants to MSCI's emerging market index are UAE and Qatar. A third (KSA) has recently opened its stock market to foreign financial institutions, for direct investments. Expert opinions read this as a move to be included in the MSCI emerging market index.

ADVANTAGE OF EMERGING MARKET INCLUSION

The Tadawul (KSA stock exchange) is the GCC's most liquid stock exchange with a trading value of $440.0 billion*. The next closest one is Dubai Financial Market at $41.2 billion*. Considering the underlying strength of its economy based on its proven oil reserves and it's relatively low cost of oil production, it would be attractive both strategically and financially to FIIs.

Hence it's recent announcement to open its stock market for direct investments by FIIs would not just increase liquidity but also raise share prices as well for companies where the intrinsic value is higher than its trading value. It would also raise awareness and profile of the Tadawul.

Experts opine that this sets KSA on the path for inclusion in the MSCI Emerging Markets index, along the line of its neighbors the UAE and Qatar. This could potentially raise liquidity further due to expected interest from index tracking investors as well.

However as a measure to safeguard against short term speculation and foster long term investment and focus, checks need to be built into the system to ensure that only credible FIIs who are capable of adding value and whose immediate exit would not jolt the markets are to be considered. Safety-checks are to be built in that includes foreign ownership ceilings, AUM size criteria and investment thresholds have to be specified.

Nevertheless with this increasing reach comes increasing responsibility to adhere to world class best practices. These include transparency, good governance, timely communication, compliance, shareholder protection and enhanced organization skills. The Tadawul is considered a pioneer in the region to develop required regulations through their CMA and further bolster foreign investors.

As with all positive relationships, utility goes both ways. Improved management, financial and accounting best practices and legal experience garnered from these foreign shareholders who increase value to the corporate as well to further develop and improve corporate governance practices.

KEY ISSUES WITH KUWAIT STOCK MARKET AND CMA

While the Kuwait CMA has taken multiple steps to foster an atmosphere of governance and regulation, one must remember that this is more about culture and weaning companies, shareholders and other stakeholders in Kuwait from what they were used to.

Discussions with various participants during the survey brought forward the following thoughts.

Participants are generally aware that corporate governance adds value to listed companies as noted in most companies in developed markets, however they felt that the mode of introduction was too abrupt in nature. Compliance and applicability rules are mostly afterthoughts. Further the mode of educating the audience that should not only include listed companies but also potentially future participants such as private companies and family owned businesses were found lacking.

A phased approach that includes road shows, events or beneficial in house trainings would have added more value and awareness. Further there were no statistics that were being shared with the public indicating the level of adherence that would have further instigated other participants to follow. At the end this requires a change in culture and changing the culture takes time and constant follow up.

Another aspect is the 'form over substance' nature of response to governance requirements. For example, appointing an 'investor relationship officer' alone does not solve the requirement that 'information is to be shared'. Companies need to remember that the shareholder have every 'right to know'.

Another key pillar of capital markets is *transparency.* While it might seem that most companies are transparent with numbers and adhere to international accounting standards, however research suggests that this is not necessarily the case. Cases with valuations of several investment companies indicated multiple classes of assets that were significantly

overstated by companies. For e.g., real estate valuations in Kuwait require 2 valuations, at least one of which is to be valued by a bank (KFH or KIB), however significant variations have been noticed across key inputs including rents, cap rates, assumptions such as renewals of tenure in case of RoU to mention a few. In a few cases it has been noted BOT lands being valued as a freehold land. Company management seems to be relying on a form over substance review as opposed to understanding and challenging the assumptions. Auditors handing such engagements including the Big 4 do not seem to be circumspect while handling such matters. Else there seems to be lack of qualified professionals or oversight with regards to the same. Valuations of other key asset classes such as private equity stakes / associates have also not followed standard procedures and a lack of adequate disclosure was also noticed in multiple cases.

The Kuwait CMA needs to consider setting up a 'Financial Reporting Review' team that are staffed with experienced and qualified personnel to review the quality of auditors on the CMA panel as well as review audit team staffing and audit files of listed companies and investment companies that come under their purview. While the auditors have never been the protagonists in the above mentioned cases, they have failed to act as the last line of defense for shareholders as well as other stakeholders.

Key matters that can be considered are to ensure that the panel of auditors only include top class auditors, that audit firms are staffed with qualified personnel, mandatory rotations of auditors, and mandatory disclosures of all services rendered by audit firms to that company or other companies within the group to which the company belongs. This will ensure that auditors do not cozy up to management to the detriment of shareholders, both majority and more importantly the minority shareholders.

The Audit Committees need to take appointment of auditors as their primary responsibility. and not leave it to CFOs of the company. Studies indicate that a high percentage of CFOs have previously worked for major audit firms and this would result in a conflict of interest.

Some recent global initiatives noted include creating rankings for audit firms based on reviews conducted by the CMA / specialized team, which can be considered by the audit committee while appointing/reappointing auditors.

Recommendations on how to improve Kuwait's Capital Market:

A well-developed capital market leads to:

- **a.** An accelerated economic growth: A developed capital market will allow the government, institutions and corporations to acquire long-term financing to invest and expand to support the domestic growth. Further, a developed capital market will attract international attention for investment opportunities which will support the domestic growth.
- **b.** Lower unemployment: Various opportunities arising from the growth will lead to the creation of career opportunities domestically.
- **c.** Enhanced saving mechanism: Fund lenders are savers who lend their excess funds to investors (borrowers) in order for them to invest and expand and in return they earn a return on their savings. This allows the circulation of funds in the economy rather than being parked unproductively.
- **d.** Transparency, fairness and competitiveness: Fund lenders will require that investee provide all information to lenders and be fair in order to borrow. This will lead to competitive environment as investees compete on gaining lenders trust to borrow and to invest in them.
- **e.** Constant development of capital market regulations, laws and supervision: Regulations and laws should support the capital market development and imbibe the spirit of enabler rather than a disruptor of economic growth.

Kuwait took the initiative to develop its capital market regulations on 21st February 2010 by issuing the Capital Markets Authority Law (CMA Law) which resulted in the creation of Capital Markets Authority (CMA) which is an independent group to supervise, improve and impose the law. The CMA Law imposed many challenges in the market as it was an unconventional and fresh law to the Kuwaiti market. Further, the CMA Law's framework was rigidly composed as well as interrelated with other laws that made the interpretation and grasping of the law difficult. Subsequently over 40 resolutions and instructions were made by the CMA indicating the challenges that the CMA is facing. The CMA has now come out with a CMA Decree No. 72 of 2015 that now essentially cancels all the earlier resolutions and instructions of the Capital Market Authority.

In the last few years, Kuwait's Capital Markets have suffered vastly indicating that the CMA Law did not help to improve the situation. During FY 2014 and FY 2015, the equity market has been stagnant with only few initial public offerings initiated by public shareholding companies such as Kuwait Telecommunication Co. (VIVA) and Mezzan Holding Co. Further, the debt market has been stagnant as well. During 2014, the market had only three companies with bonds offerings amounting to $ 1,250 million (Burgan Bank, Kuwait Projects Company and Kuwait Energy), while in

2015 there were 2 issues by NBK totaling $ 1,111 Mn. Islamic issues were restricted with the last issue in Kuwait being in FY 2013 for $44 Mn.

CMA Law being new to the market, it does need time to improve but it is a step forward for developing into a better overall market. Kuwait should seek to improve and enhance the CMA Law by simplifying the law, update the regulations to cover important aspects and benchmark to international laws for insights.

Pillar 1 – Enhancing Kuwait's Capital Markets will lead to an accelerated Economic Growth, Lower Unemployment, Market Transparency and Fairness and International Attention.

Based on responses to the survey and discussions with industry experts a sustained representation by Investment Companies to CMA should be made to focus on developing/improving a few key areas.

Focal Point 1: Improve Quality of Licensed Companies and Registered Persons and related Human Resources in the Capital Market

As CMA enhances the Capital Markets in Kuwait, it should also consider the entities that participate in the market. The success of the development of the market is directly linked to market participants.

The following are initiatives that could be considered:

Design of a viable framework, for the purpose of mergers and acquisitions among licensed companies. This will allow companies to merge in order to increase the market's overall efficiency and performance by providing an improved level of service to clients. Especially beneficial to small companies that can merge and work together on providing the best service to their clients by sharing different aspects of their knowledge and experience among them as well as diversity in the market as both could offer different types of institutional investment services. Some of the key disadvantages of the current mergers and acquisition option are the minimum price to be offered for a listed company (6 month average price) and delisting in the case of a reverse merger. This has led to multiple M&As that were being considered by respondents, to be put on hold.

Development of Capital Markets is not a short stop measure, but an ongoing process to develop further over the years. Subsequently, CMA should seek to conduct training programs conducted by professional and experienced trainers regularly to preserve and develop licensed companies. Of course, training programs can also be implemented by the companies as well to advance the qualities of their personnel.

Development of a fair competitive environment among the market participants would aid in further market development. Regulations and laws need to be constructed in the best way to not give any participant an advantage on another. This will allow for a confident and encouraging competitive environment among the participants. The current allocation of KIA funds across certain licensed companies alone need to be studied and ways to distribute the same across multiple other qualified licensed companies could be considered. For this, a consolidation among market participants is required, whereby adequate resources exist to provide the above par investment services.

Investor confidence in licensed companies could be strengthened if the CMA develops and fairly monitors competency and eligibility standards for registered persons working at these licensed companies as well as conduct continuous training programs for them. Further, the CMA should periodically assess and alter its qualifying exams for key personnel, as Capital Markets continuously develop and get more complex.

In a study on '100Best companies to work for' conducted by "Great Places to Work Institute", some key highlights were noted – Financial Services companies which have high employee satisfaction had significantly lower turnover than industry peers. Their Trust Index survey indicated employee satisfaction metric increases were met with far higher returns in profitability and most importantly those companies provide nearly 3 times the cumulative return of their peers. CMA

should consider introducing an index related to the quality of the workplace of the licensed companies with standards and specific criteria such as the organizational structure, development, training, etc. The introduction of the index will allow

clients and new participants to the market to distinguish between companies according to this index. This will also lead companies to develop themselves and operate at a higher level of professionalism. Moreover, CMA may attach an award to the index which will lead to a competitive environment among the companies, which would also help clients to distinguish quality of the licensed companies.

Focal Point 2: Institutional Investment Development

Institutional investors drive the market to a better performance as they are by nature long-term and large-sum investors who are professional with market knowledge.

Institutional investors will enhance the overall market transparency and fairness as they will seek to obtain all the necessary information to assess their risk and return compared to retail investors which invest mainly based on general performance of a company and/or on expectations.

Introducing regulations and procedures regarding Qualified Foreign Financial Institutions to allow them to invest in the Kuwait market directly which will be a step for Kuwait to be classified as an emerging market as well as enhancing the overall market performance. Further, CMA should evaluate the consequences that Kuwait may face with the allowance of foreign investors to own strategic shareholdings in listed companies along with other interrelated governmental authorities. In general, allowing foreign investors to enter the market will lead to a positive effect as those investors will share and implement their knowledge and experience in the market which will create new opportunities as well as connect other markets with the Kuwaiti market.

Allocating a specific portion of initial public offerings (IPO) to Qualified Institutional Buyers (QIB) as this will lead to the growth of the institutional investments in Kuwait which will positively impact the market. This will result in increased scope of services for book runners and book building exercises. In the US a QIB is generally a asset manager who manages $100 million of AUM in securities that they are not affiliated with. It also includes a registered broker-dealer who owns or invests in $10 million of securities that they are not affiliated with.

Focal Point 3: Developing the Collective Investment Scheme Segment

Modernizing the real estate investment funds by studying the international market to widen the market. Increased disclosure and additional transparency would further protect investors. With Kuwait's in demand and highly priced real estate sector, investment companies could consider forming REITs (Real Estate Investment Trust) to own or finance income producing real estate. This allows anyone (including individuals) to invest into a portfolio of high priced properties. However, as the properties are income generating and due to restrictions in the shareholder favor (75% of assets to be invested in real estate or related direct mortgage, 75% of income to be sourced from rents and 90% of income to be paid as dividend), this form of investment schemes has been very popular in the USA.

Establishing a saving structure for individuals that will guide them on saving techniques and encourage savings which in return will create opportunities for institutional investors to increase as individuals seek to pool their funds with institutional investors who invest on their behalf.

Study the international environment for new financial instruments that could be introduced in Kuwait to expand the current instruments. Further, if new financial instrument is introduced in the market, it should be accompanied with the necessary regulations, mechanism and practices.

Focal Point 4: Use of Internationally Accepted Investment Performance Standards for Client Reporting

Application of Global Investment Performance Standards (GIPS) by all investment companies that maintain funds will ensure that clients have access to professionally managed and monitored investment funds that adhere to international standards.

Organize events to increase the public's awareness of investment funds by covering the aspects of the investment needs, risks and restrictions.

Focal Point 5: Promote Issuance of Sukuk and Debt Instruments

In 2014, Kuwait witnessed nil issuance of Sukuk while only two companies issued bonds. Debt instruments are important aspect of the market as it provides investment diversification for investors. On the other hand, debt instruments provide organizations with the opportunity to raise funds for the purpose of growing in the market.

With a global Muslim population of on excess of 1.4 billion, the Islamic finance industry has the potential to be one of the largest markets in the world. Malaysia is currently the capital of Islamic finance with a history of being home to some of the largest Islamic issuances. However Dubai is in the process of trying to target that position. The World Islamic Economic Forum was held in Dubai for the first time in its 10 year history, indicating seismic changes in Dubai's strategy to be the capital Islamic finance industry. This requires a plan to widen the debt instrument market (including Sukuk) in Kuwait by studying the international markets as well as discussing the thoughts and needs of the domestic borrowers and lenders. Debt instruments are an alternative method to raise funds by borrowers to grow in the market or utilize the borrowed funds in any other manner.

With current oil prices at current lows, development of a local debt market would be of paramount importance. With GCC governments mopping up available liquidity, the private sector would be hard pressed for credit or could face higher finance costs.

Improve the ease of procedures for debt instruments offering by easing regulations associated with them and guide borrowers in the process. Focus on developing the secondary market as it will further expand the market.

Promote securitization as a means to develop the debt instrument market as it promotes liquidity in the market. CMA should seek to improve the regulation framework regarding it and promote it to investors.

Focal Point 6: Improve employment opportunities for citizens at Licensed Companies and the CMA

Kuwait has already implemented this strategy in the market as companies have to have a certain percentage of citizens as employees. This step was an effective step for Kuwait as it opened the door for its citizens in the market place by contributing in their own market. Kuwait should enhance its policies and regulations regarding this regularly to keep up with the market situation.

However the quality of a major part of the citizens should be enhanced through proper training.

Key initiatives that can be taken include internship programs that could be undertaken in the summer break where graduates would be introduced to the nuances of finance, while companies can study the potential of these students.

The CMA could also come up with graduate training programs that should be developed by internationally recognized trainers that would help develop the graduates to meet the requirements of various positions across different departments of the CMA.

Focal Point 7: Deepen the Capital Market to Enhance its Role in Supporting the National Economy

Prevailing listing rules should be revisited with focus to be on governance rather than focusing purely on financial requirements. Since 2014, only 2 initial public offerings have occurred in Kuwait which indicates an existing issue in the structure that must be studied by the CMA to discover its causes.

Encourage qualified private companies to list their shares in the market. All IPOs should move through qualified investment bankers or qualified institutional buyers. Further the total IPO should be segregated and made available to various classes of investors. The role of the CMA should be to improve market depth, enlarge market participation and enhance investment services.

CMA should conduct awareness sessions for private companies to promote the importance of listing their shares in the market. The promotion may be delivered to the private companies by pointing out the benefits of listing the company. The benefits include: capital raising, being recognized in the market (as some private companies stay anonymous to the market), potential growth, increased competitiveness and exposure to new markets.

Pillar 2 – Investor Protection

Focal Point 1 – Governance and Disclosure

Corporate practices in the region are often shrouded in secrecy. Many companies try to keep business and financial practices away from public knowledge and scrutiny. A critical point to develop and facilitate Kuwait's market is to improve **investor protection**. Protection for investors can be enhanced by **increasing transparency** for all listed companies by means of raising levels of disclosure, facilitating the flow of information and raising corporate governance. The corporate governance disclosures should not be viewed with a pedantic or legalistic approach but rather a holistic and informative approach to their corporate governance framework. Companies should not only state the disclosure but each disclosure should be explained along with the policies and practices that the companies have in place in this regard. Moreover, companies should follow an "if not why" policy to state the reason for non-disclosure.

Firstly, it is essential to improve the quality of disclosures for licensed companies in order to enhance transparency. Corporate governance disclosures can streamline the corporate governance process by companies choosing to publish their governance disclosure on their websites. Each disclosures can be classified as "need to know" [Required] and "good to know" [Recommended] disclosures. The following are key examples:

1) Responsibility of Board members	
Need to know: 1. Whether the Board is responsible for adopting a process that sets out long term goals of the company and the plans to achieve those goals	**Good to know:** 1. Scope of the long term plan taking the business opportunities and risk into consideration 2. Discuss whether the board or a committee reviews the plan on an ongoing basis and how they carry out the review
2) Risk identification	
Need to know: 1. Whether the board assumes responsibility to ascertain key risks and to ensure the systems are in place to manage the risks	**Good to know:** 1. If the board identifies the risk then, a. Describe the risk, b. Describe how the risk was identified c. Discuss the procedures in place to manage the risk 2. If the board does not assume responsibility, then state the committee responsible for identifying risks
3) Safeguard integrity in internal control reporting	
Need to know: 1. Whether the board is responsible for establishing appropriate internal control and then ensuring its implementation	**Good to know:** 2. If the board assumes responsibility then, disclose a. The assigned committee responsible b. Describe the review process of the controls c. Disclose the frequency of the meetings of the committee to review the systems in place
4) Independence of Board members	
Need to know: 1. Disclose if major section of the directors are unrelated 2. Disclose if board includes directors who are independent of management/major shareholders 3. Disclose if the minority shareholders can fairly represented	**Good to know:** 1. Disclose the relationship of each director whether related or unrelated with management and major shareholders 2. Discuss the procedure in place to take into account the view of the minority shareholders
5) Reviewing the board's effectiveness	
Need to know: 1. Whether there are procedures in place to review the effectiveness of the board	**Good to know:** 1. Discuss the review process of the board 2. Disclose the frequency of the review process 3. Describe the actions taken in light of the review

6) Corporate governance oversight	
Need to know: 1. Whether the board is responsible to develop or address the corporate governance issues	**Good to know:** 1. State who is responsible for corporate governance 2. Describe the responsibilities of the committee to develop corporate governance guidelines
7) Audit committee	
Need to know: 1. Disclose if there is an audit committee 2. Disclose if the roles and responsibilities of each committee member has been defined 3. Disclose the committee members are independent directors or not	**Good to know:** 1. State the relationship of each director with its other directors / management 2. Describe the roles and responsibilities of each committee member along with their financial literacy 3. Disclose the frequency of the audit committee meetings 4. Describe the relationship of the audit committee with the external auditor

Levels of disclosure should also increase for other forms of companies such as investment funds and portfolio investments. There should be an improvement in the level of disclosure for transparency in matters such as asset valuation, key assumptions used and related material events and changes. Moreover, the disclosures should be regular, reliable and comparable across the board. Insufficient or ambiguous data would hamper the markets, increase cost of capital and discourage investments.

Risk management is the identification, assessment and prioritization of risk. As per ISO 31000 it is defined as "a coordinated set of activities and methods that is used to direct an organization and to control the many risks that can affect its ability to achieve objectives". Risk involves the likelihood of an event occurring and the severity of the event on a set of objectives. Some common risks in the financial sector include:

1. **Credit Risk:** is a risk associated with the borrower defaulting on its debt obligations.
2. **Market Risk:** is a risk associated with a decrease in a value of an investment due to changes in interest rates, currency exchange rates and/or commodity prices.
3. **Liquidity Risk:** is a risk associated with a company or bank not meeting short term obligations.
4. **Operational Risk:** is a risk associated with the industry risk that a company is operating in. It can arise due to weak internal controls or external events.

Corporate governance is interrelated with risk management as a company implements several strategies to reach its goals with each strategy having its own risk that should be managed. Strong corporate governance principles with adequate risk management assist a company to achieve its overall goals. The following are few points to consider when implementing corporate governance in relation to risk management practices:

1. The corporate governance policies should be directed to support long-term growth for shareholders rather than short-term growth. The board should:
    a. Avoid policies which encourage heavy risk-taking for the purpose of solely short-term growth.
    b. Link compensations with long-term value creation.
    c. Set risk management systems to control risk.
    d. The board should be comprised of independent and diverse members.
2. Establish an environment where performance with integrity is hailed. The management should:
    a. Set the tone at the top regarding risk management.
    b. Create and monitor procedures of risk management and internal controls.
    c. Risk management are supervised and controlled by capable personnel.
    d. Link compensations to controlled and transparent risk-taking.
3. Shareholders voting should be based on long-term perspectives which impacts corporate governance. The shareholders should:
    a. Mandate board and management to be transparent regarding risk-taking.
    b. Exploit disclosed information in voting and investment decision making.

Development of the risk management system has accelerated as an aftermath of the crisis. Risk management system is an effective way to control and monitor in order to enhance risk related decision making. Sound corporate governance procedures and practices along with strong risk management systems will ensure that risk-taking decisions are associated with a company's goals and the ability to absorb losses and long-term viability. Further, a framework set by the board and management will guide a company in its day to day business decision making.

Investment companies should adhere to performance standards such as Global Investment Performance Standards (GIPS). GIPS standards are voluntary, ethical standards for the calculation and presentation of an investments firm's performance results. Compliance to GIPS is an important way to ensure sufficient disclosures. Moreover, compliance would lead to enhanced integrity in the presentations for the compliant firms and will provide the investor the ability to compare companies across the board.

Another key aspect for improving protection can also be increased by streamlining certain permitted activities to be carried by only registered person. Registered person should be "standard and fit" which implies registered person should meet certain pre-defined criteria, examination requirements and continuing professional education. The disclosure for all registered person names and their conflicts of interests should also be strictly enforced given the interconnectedness of the business nature of Kuwait. Further, the authorities in Kuwait should work with the registered persons to raise and improve the levels of disclosure for material information. In order to improve the level of disclosures, registered person should be liable for the release of material information on the company website to promote investor knowledge. Kuwait stock exchange plays a crucial role in dissemination of information to market participants that help increase market transparency and efficiency. Another key component to enhance investor protection is by improving channels and ways of dissemination of information by the agencies towards all market participants. Timing and materiality are also key aspects that need to be taken into consideration.

Corporate governance reform is an important aspect of broader reform at securing an environment attractive to both domestic and foreign investors and that enhances the benefits of investment to society. Good corporate governance enhances the credibility of disclosures and subsequently investor efficiency. The levels of corporate governance need to be raised in Kuwait in order to be more attractive to domestic and foreign investors. Primarily, there should be an increase in the awareness of the importance of corporate governance in Kuwait. Authorized agencies in Kuwait should develop training regimes and publish informative materials to increase awareness of the importance of corporate governance aimed at board members and key personnel. This should help in increasing the levels of compliance with the corporate governance rules and instill best practices at a company level leading to enhanced transparency. Moreover, efforts in research for better corporate governance practices should be encouraged.

Corporate governance is important at two levels the board level and at the company level. Firstly, governance at the board level is critical. The board members with highest character and integrity should be selected in order to induce duty of loyalty and care. Moreover, experience and understanding of strategy and policy-setting and no conflict of interests should also be considered before hiring as this would aid in enhancing efficiency. The board should be held responsible for guiding corporate strategy, establishing code of ethics, ensuring adherence to laws, monitoring potential conflicts of interests between management, board members and shareholders. The board should also be responsible for enforcement of risk compliance. The board members should also be held accountable and be punishable for any non-compliance.

Corporate governance at the company level should be developed as per international standards which include emphasizing integrity and ethical dealings, establishing clear and well defined roles with increased accountability, independence of auditors, establishing an audit committee, robust internal controls, effective risk management and conflict of interest's policies. Key emphasis on corporate governance should be put forth on an institutional investor level in Kuwait as this influence of good corporate governance would trickle down to the companies it holds.

Strengthened compliance for the disclosure requirement is key aspect for Kuwait. Compliance should be strictly monitored and authorities should be able to enforce strict penalties on offenders. Strict penalty guidelines should be implemented and applied impartially to improve compliance and enhance investor protection.

Focal Point 2: Investment Literacy and Awareness of Market Participants

In order to protect investors a key aspect is investor education. It assists in complimenting other tools such as regulation, supervision and enforcement. Investor education is the first line of defense against unfair and unsound practices. Similarly to programs at company level, the authorized authorities should increase efforts to educate investors as well. Ease of access to reliable information can be achieved by improving awareness through an interactive website. The website should contain various tools to learn, provide examples of virtual and real case studies along with trial tests to ensure investors grasp the material. Further, awareness of frequent violations should be increased through workshops and visual releases along with list of frequent violations and frequently asked questions can help reduce the probability of violations. The website should provide details about investor rights as well. Moreover, financial literacy programs organized by experts with unique insights into the market are essential as they help in better financial decision-making, greater confidence and higher participation in securities market. Financial literacy programs should be available in person and should be accessible online. The programs should also include conferences, lectures and symposiums for every level of investor and should cover a range of topics including technical knowledge, associated risks of investment products and violation in the capital markets.

Another critical point for increasing investor confidence is the role of authorized agencies in Kuwait. The authorized agencies should increase the speed of procedures in gathering evidence and investigating into violations of the law. The authorities should also improve their examining and applying methods and tools to avoid any obstacles to ensure higher completion rates. Authorized agencies should also ensure correct recording of inquiries and complaints along with corrective and swift action on those complaints is taken. Kuwait's authorized agencies should also develop self-monitoring at the registered person level by introducing advanced surveillance systems to further reduce violations or enhance early detection of violations leading to greater investor protection. This could be further emphasized if the agencies adopt policies that disclose the violations of the registered persons publicly which will aid enforcing the policy.

Pillar 3 – Regulation

Regulatory environment should be strengthened to promote financial stability. Strong, coherent, and long-term frameworks, including binding legislation, are important to increase the influence of the regulatory agencies. Regulatory environment should follow a disclosure-based approach which would help in increasing market efficiency and promote investor confidence. Disclosure based approach involves mandated public disclosures by corporations and dissemination of information that is standardized and comparable. The authorized authority in Kuwait should take the importance of clearer implementation of rules in order to avoid any ambiguity for successfully following the approach. It is imperative that there is harmony between regulations and work procedures of the firms in order to achieve higher transparency and investor protection by clearer detailed disclosures. Awareness regarding the disclosure based approach of the agency is an important aspect to the implementation of this approach. Agencies in Kuwait should launch campaigns to raise awareness which focus on explaining the meaning and fundamentals of the approach along with details regarding the roles of the agency and regulatory consequences. This will enhance the understanding of the regulations and help in better compliance and reduce illegal activities.

In order to promote and enhance financial stability, all entities should establish clear distinction in their roles and jurisdictions. Kuwait's regulatory authorities and government entities should not overlap in terms of their roles and responsibilities. Regulatory authorities along with government entities should coordinate to further stability in the financial sector by coordinating on public policies, commencing joint initiatives for regulatory developments and identifying and managing systematic risks. Moreover, a framework between the government entities and regulatory agencies should be established for the purpose of improving and boosting efficiency of the regulatory environment. This framework would bridge regulatory gaps and avoid any overlapping in supervisory ambit and also organize an annual forum to improve communication within the agencies resulting in the enhancement of the regulatory environment.

UNION OF INVESTMENT COMPANYS' ROLE

Union of Investment companies is the perfect entity for lobbying the recommendations to revitalize the investment sector to the parliament. UIC was created with *"the desire to cure the big gap in the investment market in Kuwait. This is through revising the economic legislations and introducing suggestions to make them fit the different working investment companies in the market, which play a great and effective role in developing Kuwaiti economy and so investment in Kuwait and creating new investment tools to make Kuwait a prestigious financial center among countries in the region".* A key role can be played by the Union of Investment Companies (UIC) as it has 38 investment companies as its members which would help in the implementation of the recommendations. Also, UIC has a unique opportunity of gaining an insight into Kuwait's investment sector. Further, UIC comprises of only 38 investment companies as members while there are more than 80 investment companies in Kuwait. UIC should work towards inviting more investment companies as its member so it can be representative of the entire investment sector.

The regulatory bodies in Kuwait should take it upon themselves to ensure clarification of the rules they introduce and oversight on its application. Prior to introduction of the rules, adequate time should be provided for agreeing/clarifying doubts of the initial draft of the rules.

A committee should be created by UIC that would interact with competent officials from the Capital Market Authority (CMA), Central Bank of Kuwait, Kuwait Stock Exchange, Ministry of Commerce and Industry (MOCI) and independent experts. The committee would facilitate discussions regarding consistent implementation of the rules, impacts of the rules and avoid conflicting rules.

UIC should create a platform that enables the consolidation of the investment sector. UIC should also conduct discussions with all investment companies in order to understand the state of each investment company. Further, they should understand the number of companies that are interested and that are willing to acquire or merge with another investment company. Furthermore, through the discussions UIC should understand the number of companies who are willing to undertake the role of an 'anchor company' for the consolidation of the investment sector.

According to the survey respondents, the committee should also look into the effectiveness of oversight bodies such as the CMA. Basis for hiring personnel at CMA should be revisited to ensure competent personnel are only hired. Registered Persons at investment companies are registered and oversight is undertaken by the CMA. Similarly, the committee should oversee the hiring policy at the CMA to ensure that the personnel are not inept or are not providing procedural barriers to inhibit a successful implementation of the recommendations.

INVESTMENT SECTOR REVITALIZATION OPTIONS

A. Fragmented Market that needs to be Consolidated

1. Consolidation of the sector is of paramount importance. The Union of Investment Companies as a representative trade body could identify and approach troubled investment companies and discuss various options available to them to remedy the situation.

   Firstly, this study relied on investment sector data under the CBK supervision as of Sept 2015 which included 82 companies. However, post the advent of the Capital Market Authority, it is key to note multiple companies rescinded their financing licenses and opted out of CBK supervision.

   Analyzing the six-year period, before the financial crisis, Kuwait investment sector witnessed 24.8% growth in assets between FY 2002 – FY 2008 on account of liquidity available and the number of investment companies grew from 38 to 99 during the same period. The global financial crisis led to stagnation of growth worldwide and a majority of the investment companies within Kuwait felt its repercussions as well leading to a fall of over KD 2 Bn in FY 2009. Post crisis, the investment sector has not been able to recover as key gauges such as total assets amounted KD 10.5 Bn in Q1 2015 as compared to KD 14.4 in FY 2009.

   The investment sector comprises of companies that were investment companies once and now shifted their focus to other revenue streams. In FY 2014, out of 36 companies, only 13 companies' main source of revenues came from investment revenues. Total investments revenues amounted to KD 184.3 Mn which contributed 33.6% to net revenues as compared to FY 2009 where total investments revenues amounted to KD 824.4 Mn contributing 56.3% of net revenues. Examples of a company that has shifted its operational focus is company 21 (refer appendix) whose investment income contributed 61.7% to its net revenues in FY 2007 as compared to 2.3% in FY 2014. Another example is company 17 who had diverse operation in FY 2007 and amongst them investment revenues accounted for 57.6%. However, after the crisis the company moved its focus from investment activities to solely concentrate on hotel service revenues.

   Further, Kuwait's investment sector post crisis has been under considerable distress as it had relied on short term debt to fund long term illiquid assets. The investment companies battled with issues such as asset-liability mismatches and unprofitable business models and pushed to reschedule the debt. On the other side, banks were also impacted and hence lack of new funding resulted in a liquidity squeeze. Given the issues faced by the investment sector the banks agreed to extend credit lines and refused to avoid booking losses associated with debt default. These agreements delayed many investment companies from bankruptcy thus leading to capital depletion and creation of zombie companies. Zombie' companies continue to bleed and waste resources, which could otherwise be used for better purposes.

   Thus, the investment sector has investment companies whose main activities are not investment related and some investment companies that are essentially zombie companies. Hence the investment sector is no longer playing this critical role thereby hampering the country's development process.

   The need for consolidation is critical as it a pre-condition to pave the way for a stronger and competitive investment environment that would be better for the future and the development of the investment sector. The pertinent group to govern the consolidation is ***Union of Investment Companies (UIC)***. UIC was created with *"the desire to cure the big gap in the investment market in Kuwait. This is through revising the economic legislations and introducing suggestions to make them fit the different working investment companies in the market, which play a great and effective role in developing Kuwaiti economy and so investment in Kuwait and creating new investment tools to make Kuwait a prestigious financial center among countries in the region".* This makes UIC the perfect entity for lobbying the recommendations to revitalize the investment sector to the parliament. Further, the union comprises of 38 investment companies which provides it a unique opportunity of gaining an insight into Kuwait's investment sector enabling it to administer a smoother consolidation.

Consolidating the sector would help the government as the government would not be approached to bail out weak companies. Consolidation of the weak companies with stronger companies would rationalize businesses to achieve greater productivity.

UIC should create a platform that enables the consolidation of the investment sector. UIC should also conduct discussions with all investment companies in order to understand the state of each investment company. Further, they should understand the number of companies that are interested and that are willing to acquire or merge with another investment company. Furthermore, through the discussions UIC should understand the number of companies who are willing to undertake the role of an 'anchor company' for the consolidation of the investment sector. The anchor companies should be backed with strong financials i.e. stable asset base, profitable income statement, low leverage ratios. The anchor companies will then be presented to all the investment companies as potential merger partners.

All the remaining investment companies will be provided with the required information to process, that will enable consideration of a merger or an acquisition. Once the information is processed, they will be offered with a choice to merge with one of the anchor investment companies. The merged groups will be allowed benefits such as cross selling of investments and financial services within the same group as this will help to maximize synergy of the group. Further, the benefits of the merger to each entity is stated below:

Benefits to the anchor investment companies

The benefits to the anchor investment company by taking on the weaker companies is as follows:

1. *Gain:* The anchor company gains by buying the smaller company at fair value rather than book value and through synergy and economies of scale increases the value of the merged company
2. *Market share*: The merged company will have an increased market share
3. *Greater Pricing Power*: Greater pricing power due to reduced competition resulting in higher margin and operating income
4. *Combination of different functional strengths*
5. *Diversification*: The merged companies may have access to more geographies and sectors
6. *Product development:* The merged company may have more lines of service business lines
7. *Knowledge:* Merging presents the opportunity to team up specialists from various areas of the investment sector
8. *Economies of scale:* Increased output can reduce the average costs which enables lower cost for the consumers
9. *Operating Synergy*: economies of scale arise from mergers leading to the merged firm becoming more cost-efficient and thus profitable

Benefits to the merging investment companies

In addition to market share, diversification, product development and knowledge the weaker companies will have the following benefits

1. *Access to Funds:* Merging provides the weaker companies with access to more funds to develop at lower interest rates
2. *Knowledge*: Underperforming businesses may obtain quality staff or additional knowledge that would help the business to enhance
3. *Access to customers:* Merging would provide the weaker companies access to a wider customer base which would not have been possible to attain prior to the merger
4. *Cost efficiency:* The merger would reduce costs and overheads such as eliminating duplicate departments, office rental space etc.

Additionally, UIC should be aware of the following potential pitfalls that may arise during consolidation and ensure the proposed merger aids progress and not hinder it.

1. *Interference from governmental agencies:* Awareness amongst other governmental agencies such as Ministry of commerce and industry (MOCI) and CMA within Kuwait regarding the proposed consolidation is crucial to ensure a smooth transition of the consolidation of the investment sector. The committee should be created by UIC to deal with public bodies will help in these cases.

2. *Reverse acquisition:* Should a reverse acquisition take place, UIC should discuss with the committee which includes officials from the Capital Market Authority (CMA) and Kuwait Stock Exchange to ensure reverse acquisition rules do not apply in these cases.
3. *Debt clause:* The committee should study potential impacts and discuss how to address them. For example, loan covenants being broken due to consolidation, CBK key ratios such as leverage ratios being impacted.

A.1 Road Map for Consolidation of Investment Companies

Stage	Tasks and authorities	Results	Advisor role	Company role
Phase 1 Approvals	1. Company A & B approve the valuation reports. 2. Company A & B provide their shareholders with recommendations for the share swap transaction. 3. Company A & B should receive 75% shareholders' approval on the share swap transaction. 4. *MOCI/ CMA/ KSE**	1. Shareholders approvals on the share swap transaction. 2. Readiness to process the transaction.	Valuation team will update the valuation reports & legal team will advise on dealing with the shareholders.	Provide required data for valuation reports update. The BOD of both companies will provide recommendations for shareholders.
Phase 2 Agreements	1. Both companies should sign a contractual agreement / offer document approving to proceed on with the share swap transaction. 2. Both companies' boards agree upon the writing off any accumulated losses for company A & B. 3. Both companies should agree upon the capital increase for Company A to enable an acquisition of Company B. 4. *MOCI/ CMA/ KSE**	The board of both companies will call for an extraordinary AGM.	The legal team will provide the contractual agreement / offer document.	Signing the agreement on proceeding with the share swap transaction and call for an extraordinary AGM.
Phase 3: Extraordinary General Meeting (EGM)	1. Approve on writing off accumulated losses for both companies. 2. Approve on the capital increase for Company A as per the amount of shares to be transferred to Company B shareholders. 3. *MOCI/ CMA/ KSE**	Both companies will be ready to process the share swap transaction.	The legal team will supervise the EGM and carry out all related tasks for the capital reduction and increase.	Providing shareholders on recommendation on the writing off accumulated losses and capital reduction and capital increase.
Phase 4: Capital Market Authority Approval	1. Company A will seek approval on the capital increase from the CMA. 2. Company A will be required to provide the CMA with a prospectus indicating the reasons for capital increase. 3. *CMA.**	Company A will be able to issue new shares to Company B shareholders.	Valuation team will prepare the capital increase prospectus.	Provide required data for prospectus.
Phase 5: Share swap transaction	1. Company B shareholder's shares will be transferred to Company A. 2. Company A will acquire a specific % of Company B.	Company A will acquire Company B through the transfer of Company B	Legal team will prepare the share sale draft contract and carry out all legal related tasks	NA

	3. Company B will become a subsidiary of Company A. 4. *MOCI/ CMA/ KSE**	shareholder's shares.	to seal the transaction. Supervising the share swap transaction process.	

**Authorities from whom approval might be required*

Note: The above is an indicative list only. Companies are advised to have an investment advisor/lawyer to ensure all legal/regulatory aspects are met. The number of phases could increase or decrease depending on the case under consideration.

A.2 Consolidation Example of Investment Companies

A hypothetical of a two investment companies merging/acquiring is shown below:

	Company A 20X1	Company B 20X1	Consolidated
Available for sale investments	6,690,004	8,180,699	14,870,703
Investment property	6,076,481	6,278,464	12,354,945
Investment in associate	-	3,574,231	3,574,231
Wakala investment receivable	-	1,260,397	1,260,397
Properties under development – Net	773,080	-	773,080
Cash and bank	582,599	1,161,144	1,743,743
Investments held at Fair Value through profit or loss	-	632,498	632,498
Total receivables	607,432	11,201	618,633
Bank deposit	121,000	-	121,000
Plant Property and Equipment	20,875	1,540	22,415
Company A's investment in Company B	821,146	-	-
Total assets	**15,692,617**	**21,100,174**	**35,971,645**
Payables & other liabilities	1,249,698	2,470,810	3,720,508
Credit facilities	582,005	4,829,837	5,411,842
Employees indemnity	149,460	87,470	236,930
Total liabilities	**1,981,163**	**7,388,117**	**9,369,280**
Share capital	13,119,263	11,722,291	24,077,048
Share premium	27,225	-	465,695
Foreign currency translation reserve	(300,134)	762,610	(300,134)
Cumulative changes in Fair Value	797,870	1,209,786	797,870
Accumulated losses / retained earnings	-	-	1,357,534
Equity attributable to owners of the parent company	**13,644,224**	**13,694,687**	**26,398,014**
Non-controlling interests	67,230	17,370	204,351
Total equity	**13,711,454**	**13,712,056**	**26,602,364**
Total equity and liabilities	**15,692,617**	**21,100,174**	**35,971,645**

Post consolidation, Company A can improve profitability by eliminating duplicate expenses such as administrative expense, staff costs, rents, etc. The potential pitfall for consolidation is the loss of jobs to Kuwaiti nationals.

Malaysian Case study

Banking sector in Malaysia during the mid 80's constituted of weak commercial banks and finance companies although circa 70% of the market share concentrated with only 5-6 financial institutions. Plans to consolidate and rationalize the banking sector started as the economy was badly hit in 1985-86 recession and a number of weak commercial banks and financial companies succumbed to insolvency and financial distress. Malaysia witnessed another banking mishap given due to the 1997 Asian crisis. Given the 1980's experience, plans to consolidate financial institutions were given a boost. During the 1997 crisis, Malaysia had huge non-performing loans (NPLs) due to over lending to the property sector and imprudent lending exposure leading to the share-based lending. In other countries, such as Indonesia, Thailand and South Korea IMF forced closure to lower the number of financial institution. In 1999, Malaysia had 55 financial institutions composed of 20 commercial banks, 23 finance companies and 12 merchant banks. Efficiency and economies of scale with impending liberalizing of banking system made consolidation inevitable.

The plan was to consolidate all financial institutions was in line with the governments' policy not to bail out weak companies rather rationalize businesses to achieve greater productivity. The central bank chose six anchor banks but however there was much disagreement amongst banks in relation to the number of core groups, the choice of lead banks and merger partners. Hence, the government increased the number of core groups to 10 and allowed the financial institution to choose the anchor banks and their own merger partners. Moreover, the merged groups will be allowed to cross sell banking products and financial services of any financial institutions within the same group. This would help to maximize synergy of the group structure and provide convenience to the banking public as they will have access to a broad spectrum of financial products offered by various institutions within the same group at any of the branches. Further, the merged groups will be allowed to combine and rationalize their internal operations so as to eliminate duplication in activities. This would also enable the banking groups to achieve economies of scale, hence reducing the cost of operations

In conclusion, the consolidation of the financial institutions helped Malaysia successfully overcome the effects of the Asian financial crisis. Moreover, studies indicate high post-merger efficiency scores have improved productivity. The Central Bank's decision to implement the program to let the mergers take place is actually a good and necessary pre-condition to allow the way for stronger and more competitive banking systems that can handle the assault of globalization. In the short run, no significant gains were made, however the mergers of the banks are for the better of the future and the development of the banking industry.

B. ALIGNING ORGANIZATION AND MANAGEMENT GOALS

1. Development of an Investment directive where the focus needs to be on long term goals that seeks to avoid unnecessary risk and volatility. This would set the organization on a focused path where all participants would be aware of the risk tolerance for the desired return being studied.

2. Draw up a clear cut investment values that are managed and supported by the investment team where the focus would be on desired liquidity, diversification requirements, sector appetite and management style (active vs passive).

3. Need for an investment policy that specifies asset allocation and setting up an investment structure that supports investment values.

4. Risk management to be considered as a partner for investment that safeguards value, as opposed to viewing the same as a control function.

C. MANAGEMENT COMPENSATION

1. Consider setting up and implementing innovative remuneration packages such as stock options, for the CEO to ensure they are driven by long term decision making and strategy as opposed to short term gains.

D. BOARD INDEPENDENCE

1. Board independence requirements to be improved to be in line with developed countries.

E. NEW INVESTMENT PRODUCTS/OPPORTUNITIES

1. Setting up of collective investment schemes such as REITs.
2. Create licenses for Qualified Institutional Buyers who can create scope for book running and book building.

F. Illiquid Investments

1. Create a platform to aggregate illiquid investments across the investment companies. This would enable marketability for the same and enable those companies to generate some liquidity.

G. MODIFICATION OF REGULATORY BODY SUPERVISION

1. Consider creating categories for companies that fall under CMA purview with varying disclosure requirements, as the 'one size fits all' classification impacts companies disproportionately.
2. Assign representatives from CMA and UIC who will act as a one-point reference for queries raised, responses for which can be shared and disseminated across investment companies.
3. CMA to issue written responses to client queries rather than through oral representation.
4. Improved regulatory oversight over risk management models and risk disclosures.
5. Improved transparency and reporting standards that are applied impartially by all companies.

H. CRISIS LESSONS THAT COULD HAVE A RESONANCE TO KUWAIT:

1. **Energy Crisis**
   - High dependence on a single natural resource can over expose an economy to price shocks
   - High oil prices lead to overall global commodity inflation
   - Spikes in oil prices tend to be associated with recessions due to reduced discretionary spending

2. **Japanese Asset Bubble**
   - Real estate prices are at an all-time high in Kuwait
   - Post bubble collapses can have lasting effects on Investor Confidence
   - Rapid decline in real estate values could have an adverse effect on the Banking system

3. **Asian Currency Crisis**
   - Regional or global credit crunches could send a contagion to Kuwait resulting in a decline in value of the KD. Although the CBK generally defends the KD where earlier it used to be pegged to the USD and later to an undisclosed basket of currencies, it is not necessary that they may continue to do so given lower oil prices and continuous fall in forex reserves, could change CBK's strategy in the long term.
   - Crony Capitalism leads to a misallocation of investments, poor returns and reduced economic efficiency.
   - Authority by the government to intervene and enforce closure of insolvent financial institutions.

4. **Russian Currency Crisis**
   - Caution is advisable when countries are going through major transitions
   - Rules-of-thumb indicators in assessing the strength of a country's fundamentals may not always show the true picture
   - A fundamental inconsistency developed between the government's desire to vanquish inflation while maintaining large subsidies
   - A fixed exchange rate and a Central Bank willing to defend it could invite speculative attacks to the currency in light of lower sustained oil prices and burn rate of forex reserves. As an example, given the low oil prices, Saudi Arabia is burning through its foreign reserves at an unsustainable rate to maintain its peg against the dollar. However this has led the 12 month forward rate has rocketed from 3.7563

SAR to USD to 3.8494 SAR to USD, indicating a possible devaluation of 2.5% if the current scenario remains in the long term.

5. **Dotcom Bubble**
   - Unprecedented growth in prices for companies without any correlation to their fundamentals can have a lasting impact
   - Need to thread with caution with companies that are difficult to value

6. **Housing Bubble and Subprime Mortgage Crisis**
   - Swiftness in devising and implementing Trouble Asset Relief Program
   - Implementing American Recovery and Reinvestment Act (ARRA) to save and create jobs
   - Strict enforcement of corporate governance oversight
   - Oversight on compensation and compensation should be based on risk-adjusted performance

7. **Dodd Frank Act**
   - Purchasing toxic assets from the banks with public private investment programs

8. **European Debt Crisis**
   - Windfall revenues associated with asset price bubbles can be mistakenly taken as permanent
   - Clear structural reforms: bank restructuring and recapitalization; labor and product market competition; and pension system reform
   - Kuwait must at all costs avoid the fiscal profligacy of a country like Greece if it is to avoid painful fiscal retrenchment
   - Tax income should be introduced at levels sufficient to finance spending without undue dependence on oil or debt financing

9. **Chinese Stock Market**
   - Artificially lowering currency leads to cheaper exports and enhanced growth however any curb in growth rates can have a lasting effect.
   - Debt driven investment models with inflation rates artificially kept low could lead to high debt burdens in the event of subdued growth.

I. INCREASE IN CAPITAL REQUIREMENT

Based on the analysis, the investment companies have been segregated into three tiers, namely:

Tier 1 – "Financially Sound" companies which are the top 10 companies in the ranking which have the least risk points.

Tier 2 – "Recession Survivors" companies which are the 16 intermediate companies in the ranking which have the intermediate risk points.

Tier 3 – "In Distress" companies which are the bottom 10 companies in the ranking which have the highest risk points.

The observation of the study indicated that 60% of Tier 3 companies' share capital was KD 25.0 Mn or less. Tier 3 companies are companies that have the highest risk points as compared to Tier 1 and Tier 2 companies. Tier 3 companies were affected by lower share capital and later incorporation dates. While there are outliers, some of the newly formed investment companies with a share capital of KD 25.0 Mn or less are not performing well within the sector. Currently the required share capital to obtain the investment license is KD 15.0 Mn which is far too low and adds pressure to a crowded sector. Within the analysis, some licensed investment companies main activities were actually non-investment activities.

Moreover, after analyzing the relative ranking (based on the set parameters) of the investment companies considered in this study, the following conclusions can be drawn. Amongst the 35 companies, the range of share capital is from KD 15.1 mn to KD 113.3 mn. The company with KD 15.1 mn capital is ranked **14** whereas the company with share capital of KD 113.3 mn is ranked **11**. Further, companies with share capital of KD 31.1 mn, KD 25.5 mn and KD 26.3 mn are ranked higher than the company with KD 113.3 mn at rank 5, rank 7 and rank 8 respectively. On the flip side, companies

that are ranked in the bottom 3 i.e. rank 33, rank 34 and rank 35 have KD 21.3, KD 21.0 and KD 29.8 mn as share capital respectively. Hence it can be concluded that the absolute amount of share capital does not result in a company performing well.

Furthermore, majority of the survey respondents, both corporate (61%) and expert (63%) views, suggested raising the level of minimum capital to be an ineffective measure to prevent companies from future crisis. Respondents indicated that it matters what you do with the capital rather than how much you have; as increased capital cannot be a substitute for sound management practices.

Nevertheless, as a recommendation the required share capital for investment companies could be revised and increased to KD 25.0 Mn from KD 15.0 Mn. This would reduce the number of overall companies by eliminating companies that are not willing to increase their share capital due to losses, pursuing non-investment activities and any other reasons. This increase in share capital would also help to consolidate the sector, as was the case for brokerage companies in Kuwait wherein share capital for randomly sampled brokerage companies was between KD 2 mn to KD 5 mn and the minimum share capital was increased to KD 10 Mn for all registered brokerage companies vide Resolution (32) of 2013 of the CMA. It is understood that this forced 3 registered brokerage companies to cease operations while another two mergers. This reduced the number of brokerage firms from 14 to 10. Another method of consolidation is by raising minimum capital of investment companies for the purpose of acquiring potential targets, through an equity swap.

If a proposal for increased share capital is to be considered, then a government mandate should force all investment companies to undergo a risk assessment in order to assess every investment companies risk profile and accordingly increase the minimum capital at an individual company level as opposed to a blanket amount on a sector level. Raising the capital for all the investment companies without taking into consideration the size of the company, company activities and company risk is inappropriate as all the companies may not possess the same level of risk and increasing the capital may hinder progress instead of aiding progress. For example, European Union directive 2006/EC/49 states that it is appropriate to establish different amounts of initial capital depending on the range of activities that investment firms are authorized to do. As per the same directive, existing investment firms should be permitted, under certain conditions, to continue their business even if they do not comply with minimum amount of initial capital fixed for new investment firms.

I.1 Capital adequacy ratios for investment companies in select GCC countries

i. Bahrain

Investment companies in Bahrain need to maintain a minimum level of capital and Category 1 investment companies are also required to make their own assessment of the appropriate level of capital they need to hold.

Principle 9 of the Principles of Business requires that investment firm licensees maintain adequate human, financial and other resources, sufficient to run their business in an orderly manner. In addition, Condition 5 of the Central Bank of Bahrain's ('CBB') Licensing Conditions (Section AU-2.5) requires investment firm licensees to maintain financial resources in excess of the minimum requirements as agreed by CBB for the level of business proposed. The level of financial resources held must exceed at all times the minimum requirements as specified for the category of investment license held.

Investment firm licensees are required to maintain, at all times, the Minimum Capital Requirement free from any pledge or any other restriction, in a retail bank licensed to operate in the Kingdom of Bahrain. They must provide, upon request, evidence to the CBB of the deposited amount

The requirements vary according to the category of investment firm licensee concerned, their inherent risk profile, and the volume and type of business undertaken. The purpose of such requirements is to ensure that investment firm licensees hold sufficient capital to provide some protection against unexpected losses, and otherwise allow investment firms to effect an orderly wind-down of their operations, without loss to their customers or those of other firms. The minimum capital requirements specified here are not sufficient to absorb all unexpected losses. This applies to both Bahraini investment firm licensees and overseas investment firm licensees. In the event that an investment firm licensee fails to meet any of the requirements it must, on becoming aware that it has breached these requirements, immediately notify the CBB in writing. Unless otherwise directed, the licensee must in addition submit to CBB, within 30 calendar days of its notification, a plan demonstrating how it will achieve compliance with these requirements.

Should the CBB direct an investment firm licensee to inject additional working capital in order to maintain the minimum capital requirements for its category of license, the investment firm licensee may inject cash in the form of a subordinated loan from the shareholders, subject to the CBB's prior approval. Such amount will be included as Tier 2 capital and must have a minimum original fixed term to maturity of more than 5 years.

Category of investment firms	Regulatory Capital Requirement
Category 1 Category 1 investment firms may undertake any regulated investment service, as listed below: a) Dealing in financial instruments as principal; b) Dealing in financial instruments as agent; c) Arranging deals in financial instruments; d) Managing financial instruments; e) Safeguarding financial instruments (i.e. a custodian); f) Advising on financial instruments; and g) Operating a collective investment undertaking (i.e. an operator).	Higher of their Risk-based Capital Requirement and their Minimum Capital Requirement
Category 2 Category 2 investment firms may undertake any regulated investment service except that of 'dealing in financial instruments as principal'.	Higher of their Risk-based Capital Requirement and their Minimum Capital Requirement
Category 3 Category 3 investment firms may undertake the following regulated investment services only: a) Arranging deals in financial instruments; and b) Advising on financial instruments.	Minimum Capital Requirement

Minimum Capital Requirements are:

(a) Category 1 investment firms: BD 1,000,000;
(b) Category 2 investment firms: BD 1,000,000 if undertaking the activity of safeguarding financial instruments (i.e. custodian), BD 250,000 in all other cases; and
(c) Category 3 investment firms: BD 125,000.

The Risk-based Capital Requirement is the sum of a firm's Expenditure Requirement, Position Risk Requirement (PRR), Counterparty Risk requirement (CRR), and Foreign Exchange Risk Requirement (FER), as following:

1) Expenditure Requirement

a) The Expenditure Requirement is equal to one quarter of the relevant annual expenditure.
b) For newly established investment firm licensees, for the first year of operations, the total annual expenditure is based on the projected annual expenditure figure for the first year as stated in the business plan submitted during the authorization stage.
c) Items that could be reduced or eliminated within a short period are:
   i) Bonuses paid out of the relevant year's profits which have not been guaranteed;
   ii) Profit shares and other appropriations of profit, except for fixed or guaranteed remuneration which is payable even if the investment firm licensee makes a loss for the year;
   iii) Paid commissions shared, other than to employees or Directors of the investment firm licensee;
   iv) Fees, brokerage and other charges paid to clearing houses, clearing firms, exchanges, and intermediate brokers for the purposes of executing, registering or clearing transactions;
   v) Interest payable to counterparties; and
   vi) Interest payable on borrowings to finance the investment firm licensee's investment firm and associated firm.

2) Position Risk Requirement (PRR)

a) An investment firm licensee's Position Risk Requirement is the sum of its individual Position Risk Requirements, calculated as a percentage of the market or realisable value of each financial instrument held, as specified in Schedule 1 below:

(a) Debt	<90 days	90 days – 1 year	1 – 5 years	>5 years
Organization for Economic Cooperation and Development (OECD)	2% x MV	2% x MV	5% x MV	10% x MV
Issued or accepted by banks	2% x MV	2% x MV	5% x MV	10% x MV
Other marketable financial instruments	10% x MV	10% x MV	20% x MV	30% x MV
Floating rate notes	<20 yrs	5% x MV		
	>20 yrs	10% x MV		
**MV – Market or realizable value*				
(b) Equities				
Listed on a regulated financial instrument exchange				25% x MV
Listed on Bahrain Stock Exchange				25% x MV
Traded on a regulated financial instrument exchange				35% x MV
Traded on Bahrain Stock Exchange				35% x MV
Other				100% x MV
(c) Commodities				
Stock positions in physical commodities associated with an investment firm licensee's investment firm				30% of realizable value

(d) Futures, options and contracts for differences	
Exchange traded futures and written options	4 x initial margin requirement
Off exchange futures and written options	The appropriate percentage shown in a, b and c above should be applied to the value of the underlying position.
Purchased options	As for off exchange written options but limited to the current value of the option.
Contracts for differences	20% of the market value of the contract.
(d) Other investments	
Single premium unit linked bonds and units in a regulated collective investment scheme unless covered below	25% of realizable value
Units in a regulated scheme which is a geared futures and options fund, or a property fund, or a warrant fund	50% of realizable value
With profit life policies	20% of surrender value
Any other investments	100% of amount of asset

3) Counterparty Risk Requirements (CRR)

(j) Cash against document transactions

Where an investment firm licensee has unsettled deals in any securities it must calculate the price difference to which it is exposed and then multiply this by the appropriate percentage below to calculate the CRR for each separate unsettled deal.

Calendar days after settlement	Percentage
0–15	Nil
16–30	25%
31–45	50%
46–60	75%

(k) Free deliveries

Where an investment firm licensee makes payment or delivers securities to a counterparty without receiving the certificate/good title or payment respectively, it must calculate a CRR for each free delivery by applying the appropriate percentage below:

Where free delivery has been made to:	Business days since delivery		
	0–3	4–15	>15
A manager, underwriter or member of a selling syndicate to whom payment for securities has been made	0%	0%	100%
An investment firm licensee to whom securities have been delivered or payment has been made with the expectation that market practice will result in a settlement date longer than three days from delivery date.	15%	15%	100%
Any other counterparty	0%	100%	100%

(l) Options purchased for a counterparty

Where an investment firm licensee has purchased an option on behalf of a counterparty on terms which do not impose on the purchaser any actual or contingent margin requirement or liability to make any payment other than the initial purchase price of the option, and the counterparty has not paid the price by three days after trade date, the CRR is the amount by which the purchase price exceeds the current realizable value of the option.

Where an investment firm licensee has purchased a traditional option for its own account or on behalf of a counterparty that has not paid the investment firm licensee , then, if the investment firm licensee has paid the option premium to the writer, it must calculate a CRR equal to the option premium.

(m) Amounts owed in respect of exchange traded margined transactions		
5) Where, as a result of a traded margined transaction, a counterparty of the investment firm licensee has an initial margin and/or variation margin requirement and has not met it fully with cash, acceptable collateral or a positive equity balance not used to meet variation margin, an investment firm licensee must calculate a CRR by multiplying the shortfall (or the relevant part of the shortfall) by the appropriate percentage contained in the schedule below:		
Initial and variation margin percentage schedule		
	Business days since shortfall occurred	
Where the shortfall is for the account of:	**0–3 days**	**4 days and over**
d. A market counterparty who has been granted a credit line under an adequate credit management policy available to cover the relevant category of margin and to the extent that it is sufficient to cover the shortfall.	5%	5%
e. A client who has been granted a credit line under an adequate credit management policy available to cover the relevant category of margin and to the extent that it is sufficient to cover the shortfall.	10%	10%
f. A market counterparty or client not within A or B above, or to the extent that he is not within A or B (the shortfall then being limited to the excess).	0%	100%
6) Local or traded option market makers. An investment firm licensee must calculate a 100% CRR for amounts of initial and variation margin not met with acceptable collateral or a positive equity balance and owed to it by a local (or by a traded option market maker) in respect of a traded margined transaction from the date of any shortfall, unless the investment firm licensee treats the local's (or market maker's) position as if it were its own		
7) Sums owed on closed out exchange traded margined transactions. When, as a result of a traded margined transaction which has been closed out, a counterparty of the investment firm licensee owes any amounts to it arising out of losses on those transactions, and has not fully met that amount through the deposit of cash, acceptable collateral or a positive equity balance not otherwise used, the investment firm licensee must after three days from the date of crystallization of the loss calculate a CRR equal to the unpaid amount.		
8) Margin percentages. An investment firm licensee may, with the prior approval of the CBB, opt to calculate the CRR using a higher or the highest initial margin or variation margin percentage, in order to avoid undue complication.		

(n) Concentrated risk to one counterparty	
If the total amount due to a licensee for free deliveries or other debts attracting a CRR from a single counterparty (or a group of closely related counterparties) exceeds 25% of the licensee's capital available, it must calculate CRR by applying the appropriate percentage below:	
Amount of capital available	**Additional CRR**
0–25%	Nil
25.01–50%	15% (or the entire excess if less)
Over 50%	40% (or the entire excess if less)

(o) Repurchase and reverse repo transactions, including sale and buy back and securities lending
An investment firm licensee shall notify the CBB if it has counterparty exposures in these investments.
(p) Swaps, forward contracts, over the counter options, contracts for differences and off-exchange futures
An investment firm licensee shall notify the CBB if it has counterparty exposures in these investments.
(q) Loans to counterparties (including free delivery payments)
An investment firm licensee must calculate a 100% CRR on the amount by which a loan to a counterparty is not properly secured, or offset against an amount owed by the investment firm licensee to the counterparty (provided there is an agreement in writing that the investment firm licensee deems to be legally enforceable and effective to secure such set-off).
(r) Other receivables and accrued income
Other receivables and accrued income not covered elsewhere attract 100% CRR from the time that they become due.

4) Foreign Exchange Risk Requirements (FER)

h) For each foreign currency (that is, any other currency other than that in which the investment firm licensee's financial statements are presented) in which the investment firm licensee has monetary assets or liabilities or any off balance sheet contracts which would give rise to a position in that currency, the investment firm licensee should calculate the net open position (netting assets and liabilities). This should be converted into the presentation currency. Where the price of an investment is quoted in more than one currency, a position in the investment shall be treated as an asset or a liability in the currency of the country in which the main or principal market in the investment is based. (Options included in the position risk requirement are to be excluded from these calculations).

i) Monetary assets or liabilities or any off balance sheet contracts which would give rise to a position in currencies of Gulf Cooperation Council countries or United States dollar are exempted for the purposes of calculating regulatory capital requirement.

j) An investment firm licensee's foreign exchange risk calculation must include the following items regardless of whether they are trading or non-trading positions
   - i) All spot positions in foreign currency (that is, all asset items less all liability items, including accrued interest, in the foreign currency in question); and
   - ii) All forwards positions in foreign currency (net present value in respect of notional position).

k) An investment firm licensee's foreign exchange risk calculation shall not include the following:
   - i) Foreign currency assets which have been deducted in full from the firm's capital resources under the calculation under the capital resources table;
   - ii) Position hedging where it is of a non trading or structural nature;
   - iii) Positions of a non trading or structural nature that a firm has deliberately taken in order to hedge against the adverse effect of the exchange rate on the ratio of its capital resources to its capital resources requirements; and
   - iv) Transactions to the extent that they fully hedge net future foreign currency income or expenses which are known but not yet accrued.

l) Where an Investment firm licensee does not include position hedging in its foreign exchange risk calculation, it shall:
   - i) Notify the CBB before such exclusion and the terms on which the relevant item will be excluded;
   - ii) Document its policy in the use of that exclusion in its trading book policy statement.

m) The net overall position is the sum of all the spot and forward positions. (Note that all the positions should be converted into the presentation currency)

n) Spot net position is calculated as the difference between the gross spot assets and gross spot liabilities. Forward net position is calculated as the difference between the gross forward purchases and gross forward sales

ii. Kingdom of Saudi Arabia

An authorized person shall continuously possess a capital base which corresponds to not less than the total of the minimum capital requirements.

The capital base of an authorized person shall comprise the total of:

3) Tier-1 capital, which shall include the following:
    a. Paid-up capital;
    b. Audited retained earnings;
    c. Share premium;
    d. Reserves (other than revaluation reserve); and
    e. Tier-1 capital contributions
        i. Unconditional Tier-1 capital contributions shall be included as Tier-1 capital.
        ii. Conditional Tier-1 capital contributions shall only be included as Tier-1 capital if their conditions state that the governing body decides on the repayment of the contributions.
        iii. In order for an authorized person to include a Tier-1 capital contribution as Tier-1 capital, the contribution must have been paid in to the authorized person.
        iv. Tier-1 capital contribution instruments may represent a maximum of 15% of the authorized person's Tier-1 capital after the reductions of Tier-1 capital in accordance with these Rules

4) Tier-2 capital may include the following:
    a. Perpetual subordinated loans and fixed term subordinated loans with an original term to maturity of not less than five years. The terms of the perpetual subordinated loan shall state that the authorized person shall be able to defer payment of the interest on the loan, when:
        i. The authorized person reports a negative operating income; or
        ii. The governing body has decided not to pay a dividend
    b. Cumulative preference shares in Tier-2 capital after obtaining the approval of the Authority
    c. Revaluation reserves
    d. Unrealized accumulated profit from investment property and tangible non-current assets at fair value shall be included in Tier-2 capital

Note: Tier-2 capital shall only be allowed up to an amount corresponding to 50% of Tier-1 capital in the calculation of the capital base for an authorized person.

Capital is required for trading book exposures which amounts to the total of the capital requirements for:

5) Counterparty risks for trading book exposures;
6) Settlement risks for trading book exposures;
7) Market risk (that is the risk of market price movements) for trading book operations;
8) Foreign exchange risks and commodity risks in the entire operations.

For such trading book exposures, an authorized person may, after obtaining an approval from the Authority, calculate the capital requirement in accordance with the rules for non-trading activities. Approval shall be granted by the Authority where the total market value of the positions in the trading book and receivables attributable thereto:

a. Normally does not exceed 5% of the sum of the authorized person's balance sheet total and total off-balance sheet commitments;
b. Normally does not exceed an amount equivalent to SAR 75 million; and
c. On no occasion exceeds 6% of the sum of the authorized person's balance sheet total and total off-balance sheet commitments, nor exceeds an amount equivalent to SAR 100 million.

For positions relating to non-trading activities, capital is required which corresponds to not less than 14% of the authorized person's risk-weighted exposure amounts.

For each exposure, the risk weighted exposure amount shall be calculated by multiplying the exposure amount by the risk weight that applies for that exposure.

Each non-trading activities exposure shall be assigned to one of the following exposure classes:

13) Exposures to governments and/or central banks;
    a. Exposures to governments or central banks for which a credit rating is not available shall be assigned a risk-weight of 150%.
14) Exposures to administrative bodies and non-profit organizations;
    a. Exposures to administrative bodies and non-profit organizations shall be assigned a risk weight of 100%.
        i. Where exposures to administrative bodies are treated by the Authority as exposures to governments and central banks, such exposures may be assigned the same risk weight as governments and central banks.
        ii. Where the Authority treats exposures to administrative bodies as exposures to authorized persons, such exposures may, with the approval of the Authority, be assigned the same risk weight as exposures to authorized persons
15) Exposures to authorized persons, banks and foreign equivalents that are subject to capital adequacy rules similar to those applied in the Kingdom;

    a. Exposures to authorized persons, banks and foreign equivalents in countries where credit ratings for the government are available shall be assigned a risk-weight according to one of the credit quality steps set out in table below.

Credit quality step	1	2	3	4	5	6
Risk Weight	20%	50%	100%	100%	100%	150%

    b. Exposures to authorized persons, banks and foreign equivalents in countries where credit ratings for the government are not available shall be assigned a risk-weight of 150%.
16) Exposures to corporates;

    a. Exposures to corporates for which a credit rating is available shall be assigned a risk weight in accordance with table below. Otherwise, a risk-weight of 714% shall be used for exposures to corporates.

Credit quality step	1	2	3	4	5	6
Risk Weight	20%	50%	100%	200%	400%	714%

17) Retail exposures;
    a. Retail exposures refer to exposures to natural persons and shall be assigned a risk-weight of 300%.
18) Past due items;
    a. Past due item shall refer to an exposure where, interest or principal are more than 90 days past due, calculated from the original agreed payment date.
    b. The unsecured part of any item that is past due (net of provision) shall be assigned a risk weight of 714%.
19) High-risk items;
    a. Exposures associated with particularly high risks such as venture capital investments shall be assigned a risk weight of 500%. Other private equity investments/unlisted shares and other participations shall be assigned a risk weight of 400%.

20) Exposures to securitization positions and re-securitization positions;
    a. Exposures to securitization positions and re-securitization positions for which a credit rating is available shall be assigned a risk-weight according to one of the credit quality steps set out in table below. Otherwise, a risk-weight of 714% shall be used.

Credit quality step	1	2	3	4	5	6
Securitization	20%	50%	100%	350%	714%	714%
Re-Securitization	40%	100%	225%	650%	714%	714%

21) Exposures to investment funds;
    a. Exposures to investment funds for which a credit rating is available shall be assigned a risk-weight according to one of the credit quality steps set out in table below.

Credit quality step	1	2	3	4	5	6
Risk Weight	20%	50%	100%	100%	150%	150%

    b. Exposures to investment funds for which a credit rating is not available shall be assigned a risk weight of 150%.

22) Exposures to real estate funds, venture capital funds, private equity funds and other closed-ended funds;
    a. Exposures to real estate funds, venture capital funds, private equity funds and other closed ended funds shall be assigned a risk-weight of 300%.

23) Real estate investments;
    a. Real estate investments shall be assigned a risk-weight of 400%.

24) Other items.
    a. Tangible assets shall be assigned a risk weight of 300%.
    b. Deferred expenditures and accrued income for which an authorised person is unable to determine the counterparty, or if it would be unreasonably burdensome for the authorised person to determine the counterparty, shall be assigned a risk weight of 300%.
    c. Holdings of listed equity shall be assigned a risk weight of 150%.
    d. Cash in hand and equivalent items shall be assigned a risk weight of 0%.
    e. Gold bullion held in own vaults or at an assigned location to the extent the authorised person has bullion liabilities shall be assigned a 0% risk weight.

Exposures in any other form of items for which rules regarding risk-weighted amounts are not provided in the above points shall be assigned a risk weight of 714%.

I.3 Example of the Application of Capital Adequacy Ratio

An example for application of capital adequacy ratio to an investment company in the Kingdom of Saudi Arabia is Audi Capital, whose disclosure on capital adequacy for FY 2015 is shown below:

Disclosure on Capital Base

The company's regulatory capital is comprised of the following:

- **Tier 1 Capital** which is considered as the core measure of the company's financial strength and includes share capital, reserves, and retained earnings.
- **Tier-2 Capital** which consists of qualified subordinated instruments, certain loan loss provisions and revaluation reserves

Audi Capital's resources as at 31 December 2015 are summarized in the table below:

Capital Base	SAR'000
Tier-1 capital	
Paid up capital	100,000
Audited retained earnings	29,974
Share premium	
Reserves (other than revaluation reserve)	9,374
Tier-1 capital contribution	
Deductions from Tier-1 capital	(2,077)
Total Tier-1 capital	**137,271**
Tier-2 capital	
Subordinated loans	
Cumulative preference shares	
Revaluation reserves	1,757
Other deductions from Tier 2	
Deductions to meet Toer-2 capital limit	
Total Tier-2 capital	**1,757**
Total Capital Base	**139,028**

Disclosure of capital adequacy ratio

Description	SAR'000
Capital Base	
Total Tier-1 Capital	137,271
Total Tier-2 Capital	1,757
	139,028
Minimum Capital requirement	
Credit Risk	54,725
Market Risk	7,149
Operational Risk	10,958
Total Minimum Capital Requirement	**72,832**
Total Capital Adequacy Ratio (times)	1.91
Surplus / (Deficit) in the capital	66,196

Audi Capital is exposed to a diversified set of risks which are common with its peer investment companies. Some of the risks are an inherent part of the business model and day to day activities of any investment company who need to have risk management capabilities focused on managing and addressing these types of risks.

2) Credit Risk

Exposure Class	Exposure before CRM SAR '000	Net exposure after CRM SAR '000	Risk Weighted Assets SAR'000	Capital Requirement SAR'000
Credit Risk				
On the balance Sheet Exposures				
Governments and Central Banks	38,876		38,876	5,443
Authorized Persons and Banks	54,698		60,498	8,470
Corporates	8,961		5,976	837
Retail	-		-	-
Investments	26,272		54,408	7,617
Securitization	-			
Margin Financing	462		693	97
Other Assets	28,884		86,840	12,158
Total On-Balance Sheet Exposures	***158,153***		***247,291***	***34,621***
Off the balance Sheet Exposures				
OTC/Credit Derivatives				
Repurchase agreements				
Securities borrowing/lending				
Commitments	9,047		64,597	9,044
Other off-balance sheet exposures				
Total Off-Balance Sheet Exposures	***9,047***		***64,597***	***9,044***
Total On and Off-Balance Sheet Exposures	***167,200***		***311,888***	***43,664***
Prohibited Exposure Risk requirements			79,008	11,061
Total Credit Risk Exposure			***390,896***	***54,725***

Break-up of Risk Weighted Assets:

Risk Weights	Government and central banks	Administrative bodies and NPO	Authorized persons and banks	Margin Financing	Corporates	Retail	Past due items	Investments	Securitization	Other Assets	Off balance sheet commitments	Total exposure after netting and credit risk	Total Risk Weighted Assets
0%										41			-
20%			10,785										2,157
50%			147		8,736								4,442
100%	38,876		14,764										59,640
150%			29,002	462				16,272					68,604
200%													-
300%								10,000		28,768			116,304
400%													-
500%													-
714% (include prohibited exposure)					225					75	9,047		66,740
Average Risk Weight	**38,876**	**-**	**60,498**	**693**	**5,976**	**-**	**-**	**54,408**		**86,840**	**64,597**		**311,888**
Deduction from Capital Base													

Disclosure on Credit Risk's Rated Exposure

Exposure Class	Long term rating of counterparties							
	Credit quality step	1	2	3	4	5	6	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3	B1 to B3	Caa1 and below	Unrated
	Capital Intelligence	AAA	AA to A	BBB	BB	B	C and below	Unrated
On and Off balance sheet Exposures								
Governments and Central Banks						38,876		
Authorized Persons and Banks		10,564						114,764
Corporates			8,736					225
Retail								
Investments		1,355						14,917
Securitization								
Margin Financing								462
Other Assets								28,885
Past Due								
Off – Balance Sheet								9,047
Total		***11,919***	***8,736***	-	-	***38,876***	-	***68,300***

Exposure Class	Long term rating of counterparties					
	Credit quality step	1	2	3	4	Unrated
	S&P	A-1+ to A-1	A-2	A-3	Below A-3	Unrated
	Fitch	F1+,F1	F2	F3	Below F3	Unrated
	Moody's	P-1	P-2	P-3	Not Prime	Unrated
	Capital Intelligence	A1	A2	A3	Below A3	Unrated
Governments and Central Banks						
Authorized Persons and Banks		368				29,002
Corporates						
Retail						
Investments						10,000
Securitization						
Margin Financing						
Other Assets						
Past Due						
Off – Balance Sheet						
Total		***368***				***39,002***

4) Market Risk

Exposure Class	Long Position	Short Position	Capital Requirement SAR '000
Market Risk			
Interest rate risks	-	-	-
Equity price risks	-	-	-
Risks related to investment funds	-	-	-
Securitization/Re-securitization positions	-	-	-
Excess exposure risks	-	-	-
Foreign exchange rate risks	114,372	-	7,149
Commodities risks	-	-	
Total market risk exposures	***114,372***	-	***7,149***

Foreign exchange risk as at 31/12/2015	Position SAR'000		Risk Capital Change (%)	Capital Requirement SAR'000
Total position in foreign currencies	Net Long	Net short		
USD and GCC currencies	73,859	0	2%	1,477
All other currencies	40,512	0	14%	5,672
Total	**114,372**			**7,149**

5) Operational Risk

Exposure Class	Overhead expenses 2015 SAR'000	Risk Capital Change (%)	Capital Requirement SAR' 000
Operational Risk			
Expenditure based approach	43,832	25%	**10,958**

6) Liquidity Risk

In SAR'000	Up to 1 year	1 to 5 years	>5 years	No fixed maturity	Total
Cash and cash equivalents	37,674			41	37,715
Accounts receivable, prepayments and other current assets	27,916				27,916
Loans	10,462				10,462
Investments		38,876	23,500	16,272	78,647
Property and equipment				3,413	3,413
Intangible assets				2,077	2,077
Total assets	**76,052**	**38,876**	**23,500**	**21,803**	**160,231**
Accounts payable and accruals	12,549				12,549
Dividend payable					-
Zakat and income tax payable	1,206				1,206
Employees terminal benefits				5,371	5,371
Total Liabilities	**13,755**	**-**	**-**	**5,371**	**19,126**
Liquidity Gap	**62,297**	**38,876**	**23,500**	**16,432**	
Cumulative Gap	**62,297**	**101,173**	**124,673**	**141,1045**	

The table is represented by a Shareholder's equity of SAR 141.105 Mn as at end of 2015. In addition to Monitoring the Liquidity Gap and Cumulative Gap, Audi Capital also monitors the ratio "Available Liquidity / Monthly Operating Expenses" and this figure is communicated to the Board of Directors. The Company set a minimum Risk Appetite and limit to be at least of 3x. As at 31 December 2015, this ratio at Audi Capital is equal to 10.2x (accounting for cash in hand/at bank/ Short-term time deposits).

ROLE OF THE GOVERNMENT

The government has been the primary mover in how Kuwait has progressed till date, giving it a larger than life role in how the county can move forward. With that in mind, it needs to take steps to cultivate a new era of thinking that would enable the private sector to join in partnership with it and help implement fiscal responsibility and improvement. Investment companies with their experience and quality of personnel would be fitting allies at a very crucial time in this country's history. They can either go forward with a transformative policy or maintain the volatile and unsustainable status quo of a reactive policy. The three pillars of this change is more accountability, clear vision & coordination as well as performance management. Reliance on the government needs to be reduced with the private sector to be given more opportunity and responsibility to contribute.

The government needs to move on from an oil focused economy to a more diverse and productivity based non-oil based private sector. The government can facilitate the private sector to take on state owned enterprises that will ensure an adequate return on capital by privatizing the same and enabling the same by easing business conditions and regulations. With this they can reduce a bulky and inefficient public workforce that would need to update their skills, and take up ownership by undergoing required training. Inefficient and ineffectual 'old guard' can be replaced with a qualified and energetic populace. The public would benefit from a better quality of services and a more agile government that could focus more on guidance and aiding private investment. For eg. public health and educational services have a highly bloated expenditure resulting in the cost of educating a student or treating a patient in some estimates to be higher than that of a private hospital! However, these increased costs are not accompanied by better quality services, with most well-heeled citizens opting for private education/healthcare. The citizens can be further empowered through by aiding development of skills and opportunities that would enable them to set up businesses and hone the entrepreneurial skills that form part of this country's DNA. Ease of doing business needs to be vastly improved by loosening red tape, enable access to SME funding and ensure other support tools to enhance their skill set. This would wean off citizens from the current 'cradle to grave' welfare system that has proved to be a bane for the general national population.

The government would benefit by shoring up liquidity from privatization of public entities as well as partake of future profitability generated by the private sector in the form of taxes. This enables the country to move from an allocation state model to a production state model.

ROLE OF THE GOVERNMENT IN PROVIDING FINANCIAL AID

During the 2008 sub-prime crisis, the US government bailed-out firms which were all dangerously interconnected with the rest of the global financial system at a time when markets had lost confidence in their housing-related assets. While the government bailed our Bear Stearns and AIG, the government did not bail out Lehman Brothers.

According to Section (13) (3) of the Federal Reserve Act, "*emergency lending program or facility is for the purpose of providing liquidity to the financial system, and not to aid a failing financial company, and that the security for emergency loans is sufficient to protect taxpayers from losses and that any such program is terminated in a timely and orderly fashion".* This implies the federal reserve can provide aid for the purpose of providing liquidity and not to aid a failing financial company.

In the case of Bear Stearns, the Federal reserve's loans facilitated the acquisition of Bear Stearns by JP Morgan amounting to $29 Bn. The collateral of Bear Stearns assets thought to be worth $30 Bn. The crucial problem faced by Bear Stearns was that of liquidity and the collateral for loan was sufficient to cover its losses. Further, according to the deal, JP Morgan would bear the burden of the fall in value of the collateral up to $1 Bn. Hence bailing out Bear Stearns was deemed appropriate as the loans appeared recoverable and the loan amount was covered by the collateral.

In the case of AIG, Federal loans that was used to bail-out AIG was collateralized against entire assets of AIG. The Federal Reserve believed the firm's problems were isolated in its financial products and not AIG's insurance business which the Fed believed remained going concern which in turn meant AIG had sufficient collateral to borrow from the Fed at low risk to taxpayers. Hence AIG's bail out was deemed appropriate as the problem persisted only in certain sections of the business and the collateral was sufficient to cover the loans.

In case of Lehman Brothers, it was entirely different as the problem was one of solvency rather than liquidity. Trading partners of Lehman Brothers started pulling out and their questionable capital position and access to cash made them more of a liability had the US Fed lent money to help resuscitate its position. The Fed did not have the confidence that the bank would survive. Other banks such as Barclays also dropped their bids to purchase Lehman Brothers. Although Lehman Brothers seemed "too big to fail" as it failure could have an enormous impact on the financial system however the company was essentially insolvent hence the Fed could not guarantee a return on the taxpayer's money by resuscitating Lehman Brothers. Thus the federal reserve's role as the last ditch lender was appropriate for Bear Stearns and AIG, however not for Lehman Brothers.

Taking cues from the approach taken by the Federal Reserve, Kuwait should only provide funds to investment companies wherein the problem of the company pertains to liquidity rather than solvency. A base rule for the government to step in and aid the troubled companies, was that the company should fulfill the requirements to be a "too big to fail" company i.e. the failure of the company can deeply impact the financial condition of Kuwait. Each company should come up with its own case study as to why they require the facilities from the government. And if they meet the "too big to fail" criteria, then the company receiving the loans should clearly state the reason the utility of the loan and only utilize the loans towards solving that problem.

Loans should also be made available to investment companies that are willing to help in consolidating the investment sector. Further, similar terms and conditions should be placed on the loan to ensure the borrowed amount is used for the purpose of consolidation.

LEGAL SHORTCOMINGS

Kuwait's legal system requires a drastic transformation as it lacks on the regulatory front and lack of adequate experience and knowledge on the workforce front. The following are the legal shortcoming in Kuwait:

8. *Bankruptcy law*: Introduction of a well-designed bankruptcy law that will be able to swiftly facilitate liquidation and orderly restructuring of distressed firms to aid in reorganization of the investment sector. The current bankruptcy law under Code 68 of 1980 does not meet international standards in covering range of companies, or in restructuring debt. Moreover, the creditors have little or no bargaining power in negotiating fair settlement.
9. *TARP:* Introduction of troubled assets management programs (TARP) to provide much needed liquidity for the investment sector. However, each investment company should devise their own business plan and debt repayment plan to use the facilities modelled on the lines of TARP.
10. *Improvement and development of laws:* Lack of legislative planning as long confounding and archaic documentary cycles are made worse by the absence of effective online portals and databases along with lack of reliable information on how the law would be implemented by the public body[1].
11. *Investment schemes:* Foster creative investment schemes such as Real Estate Investment Trusts (REITs) and other innovative financial products in Kuwait.
12. *Public bodies:* In many cases public bodies intervene and prohibits (without legal basis) certain actions expressly approved by company shareholders and not contrary to the law. Further, overlapping jurisdictions and ultra vires decisions of public bodies regulating the same matters. For example, article 172 of the companies' law 8 entitles shareholders to dispose of their shares once the company issues its first balance sheet, but not before 12 months. However, the Capital Markets Authority maintains express and ultra vires prohibition on this article, an example being the prohibition imposed on Kuwait Telecom Company KSC ("VIVA") established more than 6 years ago[1].
13. *Qualified staff and procedural knowledge:* Lack of qualified staff at the public body that have required procedural legal knowledge to implement the law effectively. Moreover, lack of uniformity and non-constitutional abuse of power by senior officials[1].
14. *Communication:* Lack of systematized communication, as formal communications which should be a requirement is usually overlooked.

[1]*International Counsel Bureau - Legal and Administrative Challenges in Kuwait's Commercial Environment: The Regulatory Framework of the Companies Law and its Application - October 2014*

KEY HIGHLIGHTS OF THE CURRENT DEVELOPMENT PLANS

Kuwait essentially started out as the most developed of the GCC states and was the first to even have its own stock exchange as well as the first to incorporate its own sovereign wealth fund. However, high oil prices and a low population, allowed for what has now turned out to be an unsustainable 'allocation state' model policy. Add to this, key fundamental shocks such as the Iraq –Iran war in the 1980s and the Iraq invasion of Kuwait in 1990, and the same highly impacted its attractiveness as a business hub. A lack of political consensus due to constant disputes between the National Assembly and the government has stalled decision making impacting the private sectors willingness to risk investment in the country.

However a long term plan (State Vision Kuwait 2035) and 2 medium term plan (5 year USD 128 Bn development plan 2010-2014 and USD 116 Bn 2015-2020 development plan) had been released by the State. The key pillars of the plan were to return Kuwait to being the financial and trade hub, through economic development, sector diversification and sustainable growth. Focal point of the plan involved the inclusion of the private sector to facilitate the plan's objectives and raising the private sector's share of the economy to above 41%. It further envisaged reforms both legislative and institutional.

Private sector involvement has been supported by an overhaul/development of key laws such as the CMA, a new FDI law, establishment of the KDIPA, introduction of the PPP law and a New Companies law. However what remains to be seen if this would be followed by actual implementation, though initial signs seem positive.

BUDGET DEFICIT

While general reserves indicate that Kuwait can tide over the current low oil prices, the current situation provides an opportune moment to put things in order. Respondents have had wide ranging views from lifting subsidies and implement taxation. However a more reasonable viewpoint seems to be to address current glaring burdens on public expenditure where significant losses occur due to rampant corruption unjustified incentives and needless positions across ministries and committees. Improved supervision of public expenditure though a zero based budgeting exercise have helped one of the clients (a K company) identify significant expense leakages and avenues for improved operational efficiency and increasing the bottom line. These kinds of exercises would help K companies and ministries step back and look at themselves, to help address the budget deficit issue. However the willingness of the same to do so would be a primary constraint, as the same are considered bastions of political influence and involve political appointments across the length and breadth of the organization.

Recent meeting with bankers indicate that liquidity is falling at banks with large amounts of withdrawals across the board especially among HNWIs. Responses from respondents indicate views that the government should take advantage of current low interest rates and sovereign rating to issue bonds or Sukuk along the line of KSA's recent action to shore up liquidity. This would help investment companies and other corporates to consider the same as well where warranted, with government issues acting as a pricing indicator.

Lifting of subsidies have been the norm with both UAE and KSA, who have both taken advantage of the current low oil prices to do so. Kuwait did try to carry out the same with lifting subsidies on diesel, however the impact of the same generally gets reduced due to lack of political will to see through the same which resulted in a far lesser decrease in the diesel subsidy than that originally envisaged. This is in spite of the impact of diesel being far lesser and direct, when compared to the impact of subsidies of petrol, electricity and water. Due consideration and implementation of the same needs to be considered instead of constantly increasing the size of a 'reserved segment' for the subsidies that result in an insignificant impact on overall expenditure. However one needs to keep in mind that subsidy removals would result in lesser disposable income that would impact consumer spending and negatively impact market sentiment.

Another key area during recent discussions with bankers indicated possibilities of a dearth in adequate financing for corporates and SMEs, as a combined result of reduction in government deposits and increased government borrowing. Further spikes in cost of lending are expected due to planned US rate hikes, which the CBK historically has matched in tandem, piling further pressure on the private sector. This is expected to impact the development and inclusion plans that the government had planned for the private sector.

INVESTMENT SECTOR – WINDS OF CHANGE

With future prospects of $100 oil expected to take around a decade to materialize, it's time for the investment sector to take a long hard look at themselves and get their house in order. Gone are the days of relationship based investments backed by gift of the gab, volume funds from the Sovereign Wealth Funds and Government Related Entities that enabled investment firms to charge asset management fees for what was essentially market timing based investments as opposed to tactical asset allocations. Insider trading and secrecy has been now replaced by corporate governance. Unqualified registered persons (key staff at licensed companies) are to be replaced with skilled and experience manpower. Excel based portfolio and client management are to be replaced with state of the art IT systems. This requires investments in Information Technology, Business Investment processes and human capital.

The Investment sector is a clearly fragmented sector with nearly a 100 investment companies. This indicates an over capacity is what is essentially a narrowing sector. BoDs, CEOs, COOs, CIOs, CROs, mid management employees as well as the companies they work for are all seeking a share of a shrinking pie. This requires a consolidation which could lead to a reduction of overall staff in the sector but would lead to efficiencies of scale as these costs could be better directed to human capital development and improved systems. Companies who adopt this approach earlier will tend to gain earlier.

Closure of non-viable investment companies/funds, or revoking their investment license. A number of companies have voluntarily given up their investment license or have had their license revoked/suspended. These include Adeem Investment & Wealth Management Co., Shuwaikh Real Estate Fund, Al Rouyah Investment & Leasing Company, Dimah GCC Growth Fund, Gulf Investment Corporation Bonds Fund, Waeed Investment Real Estate Fund among others.

Technical innovation is a key area for improvement for investment companies in Kuwait as evident from disruptive technologies such as impacting Capital Raising (crowdfunding), Lending (alternate lending, virtual technologies such as Fintech), Stock market (new market platforms) and Investment management (social trading and cloud computing). H G Well's immortal "Adapt or perish, now as ever, is nature's inexorable imperative" that is applicable not just to man but also to corporates. Investment companies need to invest in upgrades and updates before those disruptive technologies destroy them or render current business models ineffective.

Educational and vocational skills for employees for nationals need to be developed. Investment companies need to invest in CSR activities such as training camps and internship programs for nationals such as a summer program. This enables them to identify students with potential which would result in a qualified human capital that would add value to the company.

CONCLUSION

Kuwait's investment sector requires significant efforts and actions to ensure implementation to revitalize and enhance its vital role in the economy. Kuwait's investment sector witnessed growth before 2008 financial crisis and suffered a decline due to the global downturn. Post-crisis, Kuwait has not recovered to pre-crisis levels due to geo-political tensions, slow growth in emerging market and resulting fall in oil prices.

Kuwait should use the situation of current low oil prices in order to strengthen efforts to reform. There had been previous reports and recommendations on how to improve the investment climate within Kuwait; however, effective implementation of the same is yet to be seen. Kuwait has shown willingness to enhance the investment climate by developing policies such as FDI Law and strengthening of regulations through CMA Law. There is a great scope for improvement for legislation in Kuwait and specifically in bankruptcy related laws. Such weakness nonetheless, is under development in collaboration with the World Bank. Furtherly, law enforceability remains a challenge and a barrier for regulatory bodies in Kuwait to overcome. Unconfined to the aforementioned, qualified senior management personnel is of an essence to complement the enhancement process of regulatory oversight and market efficiency.

Currently, Kuwait's investment sector comprises of companies that are insolvent and distressed, which calls for a drastic change on both fronts. Consolidation of lower tiered companies with the first tier presents itself as an attractive possibility to enhance the sector's competence. Further, within the investment sector there are companies whose primary revenue generating operations are not principally investments; hence, a reclassification of such companies is warranted in attempt to present an intrinsic reflection of the sector's performance.

Finally, adopting a bird's eye view, Kuwait needs to ensure **effective implementation** of the recommendation in order to revitalize its investment sector and diverge away from its economical reliance on a sole source of national income to a more diversified basket of sustainable resources. The investment sector in Kuwait has the potential to grow provided proper laws are in place, adequate enforcement of the same and availability of qualified personnel.

APPENDICES

Contents

Central Bank Purview List

Total List of Companies under CBK Supervision			
S.No.	**2009**	**S.No.**	**2015**
1	A'Ayan Capital Investment	1	A'ayan Leasing & Investment Company
2	A'ayan Leasing & Investment Company	2	Adeem Investment & Wealth Management
3	ADEEM Investment Company	3	Ahli Capital Investment Company
4	Ahli Capital Investment Company	4	Ajal Finance & Investment Company
5	Ajal Finance & Investment Company	5	Al Madar Finance & Investment Company
6	Al Madar Finance & Investment Company	6	Al Mustaqbal Investment Co.
7	Al Mustaqbal Investment Co.	7	Al Tanmya International Investment Company
8	Al Qurain for Projects & Financial Investments Co. K.S.C.C.	8	Al-Amal Investment Company
9	Al Tanmya International Investment Company	9	Al-Aman Investment Company
10	Al Tijari Investment Company	10	Alamana Investment Company
11	Al-Amal Investment Company	11	Al-Aqeelah Leasing,Finance,Investment Company
12	Al-Aman Investment Company	12	AL-Dar Asset Management Company
13	Alamana Investment Company	13	Al-Dhow Investment Company K.S.C. (Closed)
14	Al-Aqeelah Leasing, Finance, Investment Company	14	Al-Fanar Investment Company
15	Al-Buraq Investment Company	15	Al-Farabi Investment Company
16	AL-Dar Asset Management	16	Al-Fouz Investment Company
17	Al-Dhow Investment Company K.S.C.C.	17	Al-Imtiaz Investment Group Company
18	Al-Fanar Investment Company	18	Al-Madina for Finance and Investment Company
19	Al-Farabi Investment Company	19	Al-Mal Investment Company
20	Al-Imtiaz Investment Company	20	Al-Manar Financing & Leasing Company
21	Al-Madina for Finance and Investment	21	Al-Masar Leasing and Investment Company
22	Al-Mal Investment Company	22	Al-Ritaj Investment Company
23	Al-Manar Financing & Leasing Company	23	Al-Riyada Financing and Investment Company
24	Al-Masar Leasing and Investment Company	24	Al-Rou'yah Investment & Leasing Company
25	Al-Mulla International Financing and Investment K.S.C.C.	25	Al-Safat Investment Company
26	Al-Muthanna Investment Company	26	Al-Shall Investment Company
27	AlRaya Investment Company KSCC	27	Amar Finance and Leasing Company
28	Al-Ritaj Investment Company	28	Amwal International Investment Company
29	Al-Riyada Financing Company	29	Anan Real Estate Finance Co.
30	Al-Rou'yah Investment & Leasing Company	30	Arab Investment Company
31	Al-Safat Investment Company	31	Arabian Capital Investment and Finance Company
32	Al-Shall Investment Company	32	Aref Investment Group Company
33	Al-Shams Investment Company	33	Arzan Financial Group For Financing & Investment K.P.S.C.
34	Al-Soor Financing & Leasing Company	34	Bayan Investment Company
35	Amar Finance and Leasing Company	35	Cap Corp Investment Company
36	Amwal International Investment Company	36	Coast Investment & Development Company
37	Anan Real Estate Finance Co.	37	Commercial Facilities Company
38	Arab Investment Company	38	Dimah Capital Investment Company
39	Arabian Capital Investment and Finance Company	39	First Investment Company
40	Aref Investment Group Company	40	Global Investment House Company
41	Athman Investment Company	41	Gulf Investment Corporation
42	Bait Al-Mal Investment	42	Gulf Investment House Company
43	Bayan Investment Company	43	Hayat Investment Company
44	Beyoo Finance and Investment Co.	44	Housing Finance Company
45	Coast Investment & Development Company	45	Industrial & Financial Investment Company
46	Commercial Facilities Company	46	International Financial Advisors Company
47	Dana Investment Company K.S.C.C.	47	International Investment Group
48	First Investment Company	48	KAMCO Investment Company
49	Global Investment House Company	49	KGL Investment Company
50	Gulf Investment Corporation	50	Kuwait And Middle East Financial Investment Company
51	Gulf Investment House Company	51	Kuwait Capital Investment Co.
52	Housing Finance Company	52	Kuwait China Investment Company
53	Industrial & Financial Investment Company	53	Kuwait Finance & Investment Company
54	International Finance Company	54	Kuwait Financial Centre Company

S.No.	2009	S.No.	2015
55	International Financial Advisors Company	55	Kuwait International Investment Company
56	International Investment Group	56	Kuwait Investment Company
57	International Leasing & Investment Company	57	Massaleh Investments Company K.S.C.
58	Investment Liquidity Management House Co. K.S.C.C.	58	Mawared United Investment Company
59	Kap Corp Investment Company	59	Mena Investment Company
60	KGL Investment Company	60	Murabahat Investment Company
61	Kipco Asset Management Company (KAMCO)	61	National Investments Company
62	KQ Lease & Investment Company	62	National Leasing & Financing Company K.S.C.C
63	Kuwait And Middle East Financial Investment Company	63	Noor Financial Investment Company
64	Kuwait China Investment Company	64	Osoul Investment Company
65	Kuwait Clearing Company	65	Qaf Investment Company K.S.C. (Closed)
66	Kuwait Finance & Investment Company	66	Rasameel Structured Finance K.S.C (Closed)
67	Kuwait Financial Center Company	67	Real Estate Facilities Company (RFC)
68	Kuwait International Investment Company	68	Ryada Capital Investment Company K.S.C.C.
69	Kuwait Investment Company	69	Sabaek Leasing & Investment Company
70	Manafae Investment Company	70	Securities Group Company
71	Massaleh Investments Company K.S.C.	71	Sharq Investment Company
72	Mena Investment Company	72	Sorooh Investment Company
73	Murabahat Investment Co.	73	Strategia Investment Company
74	National Investments Company	74	Tamdeen Investment Company
75	Noor Financial Investment Company	75	Tharwa Investment Company
76	Orient Investment Company K.S.C.	76	The International Investor Company
77	Osoul Investment Co. K.S.C.	77	The Investment Dar Company
78	Rasameel Structured Finance K.S.C	78	The Securities House Company
79	Ryada Capital Investment Co. K.S.C.C.	79	United Capital Group for Investment and Financing Company
80	Sabaek Leasing & Investment Company	80	Wafra International Investment Company
81	Securities Group Company	81	Warba Investment Company (K.S.C.C.)
82	Sorooh Investment Company	82	Wared Lease & Finance Company
83	Strategia Investment Company		
84	Tamdeen Investment Company		
85	Tas-hilat Real Estate Finance Co.		
86	Tharwa Investment Company		
87	The Gulf Investment International Company		
88	The International Investor Company		
89	The Investment Dar Company		
90	The Securities House Company		
91	United Capital Group for Investment and Financing		
92	Universe Investment Company K.S.C.C.		
93	Wafra International Investment Company		
94	Warba Investment Company K.S.C.C.		
95	Wared Lease & Finance Company		
96	Watani Investment Company S.A.K.		
97	Watheeqa Investment Company		
98	Zumorroda Investment Company		
99	Zumorroda Leasing and Finance Company K.S.C.		

Company Analysis

1. Company 1
(Delisted on 19th June 2013)

Quick Facts	
Establishment Date	16th June 1998
Number of Directors (Elected Directors)	7 (2)
Number of Subsidiaries	3
Number of Associates	N/A
Total Assets as at 31st December 2014	KD 100,158,000
Total Equity as at 31st December 2014	KD 89,159,000
Share Capital as at 31st December 2014	KD 79,923,000
Net Profit as at 31st December 2014	KD 6,433,000
Assets under Management in 2014 (in 2007)	KD 1.2 Bn (KD 2.3 Bn)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 913.0 Mn in FY 2007 to KD 100.2 Mn in FY 2014 mainly because of a decrease of "Investment Assets", "Investment in Associates" & "Financing Receivables".
ii. Debt amounted to of KD 543.3 Mn in FY 2007 & was increased in FY 2008 to KD 798.4 Mn. In the subsequent years, the company started settling the debt & settled it completely in FY 2013.
iii. In FY 2012, the company implemented the debt restructuring agreement with its lenders & transferred all the debt to an "Asset SPE" & hence the company has been debt free.
iv. Shareholders' Equity dropped from KD 329.5 Mn in FY 2007 to KD 89.2 Mn in FY 2014 mainly due to huge decrease of "Retained Earnings" from KD 86.7 Mn in FY 2007 to KD 5.2 Mn in FY 2014.
v. Over the years, the company wrote-off "Accumulated Losses" against "Share Capital" & "Reserves excluding FV & Translation".

Asset management manages 24 funds. Client base includes 3,000 HNWI, family offices & institutional investors.

Other income includes KD 1 Mn recovery of written receivables & KD 0.7 Mn gain on debt settlement.

Income Statement Analysis:

Key Highlights:

i. Revenues declined from KD 158.6 Mn in FY 2007 to KD 20.3 Mn in FY 2014.
ii. The company's main source of income is "Fees Income" which consists of 73.3% of net revenues.
iii. The company's "Investment Income", "Real Estate Income" & "Financing Income" reduced significantly due to asset transfer as part of restructuring..
iv. Total expenses have been declining over the years particularly after the debt was transferred to an SPE as "Finance Costs" were a huge bulk of total expenses.
v. Major impairment witnessed in FY 2008 amounted to KD 152.9 Mn.
vi. Net Profit deteriorated from KD 92.2 Mn in FY 2007 to KD (260.4) Mn in FY 2008 & stood at KD (6.4) Mn in FY 2014.
vii. The company has managed to make profits after 6 years of losses, which is attributed to cost cutting leading to improved performance along with increase in revenues in FY 2014.

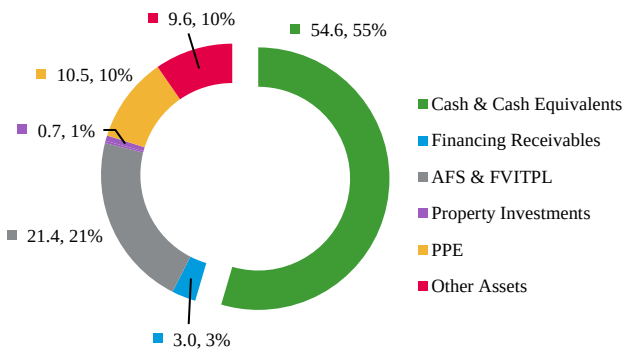
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	11.5%	(24.1%)	(11.6%)	1.1%	7.3%	TCI / AA
Return on Equity	32.2%	(82.2%)	(68.9%)	29.1%	8.4%	TCIS / AE
Solvency Ratios:						
Debt Ratio	59.5%	63.7%	77.2%	0.0%	0.0%	Debt / TA
Debt to Equity Ratio	164.9%	235.0%	478.0%	0.0%	0.0%	Debt / TE
Financial Leverage (x)	2.77	3.69	6.19	1.12	1.12	TA / TE
Interest Coverage (x)	3.77	(5.70)	(2.17)	(25.73)	-	EBIT / Int
CBK Ratios:						
Leverage Ratio	177.1%	268.7%	519.2%	11.9%	12.3%	TL / TE
Shouldn't Exceed 200%	✓	✗	✗	✓	✓	
Quick Ratio	11.8%	6.1%	12.5%	452.4%	496.8%	Cash / TL
Should Exceed 10%	✓	✗	✓	✓	✓	

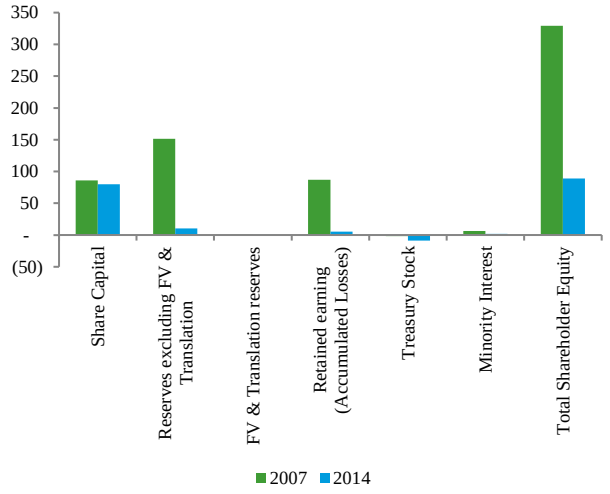
i. Profitability ratios have been negative since FY 2008 as the company witnessed losses till FY 2013. In FY 2014, as profitability increased, the ratios became improved. *(In FY 2013, ROE is positive because the net profit used in the calculation is only the portion attributed to the equity holders of the parent company).*
ii. Solvency ratios have been 0% since FY 2012 as the company restructured debt & transferred the debt to an "Asset SPE". Furthermore, during the period from FY 2008 till FY 2013, the company did not make enough operating profit to cover its interest costs.
iii. As per CBK's principles, leverage ratio should not exceed 200%, & the company managed to keep it below 200% in the past two years as the company did not depend on debt to finance its operations. On the other hand, quick ratio should exceed 10% & the company managed to achieve it over the years, other than in FY 2008, indicating the ability of the company to meet its obligations.

Figure 1: Company 1 – Key Financial Data

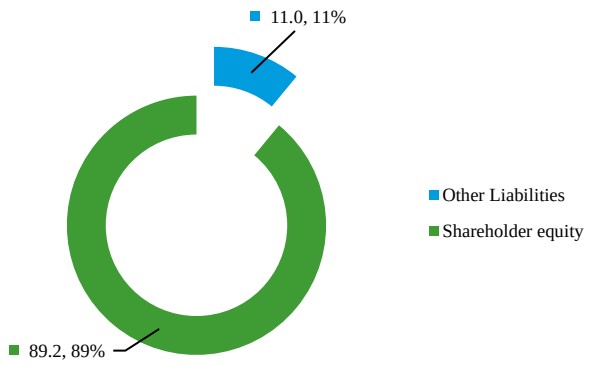
Asset Composition (KD Mn)



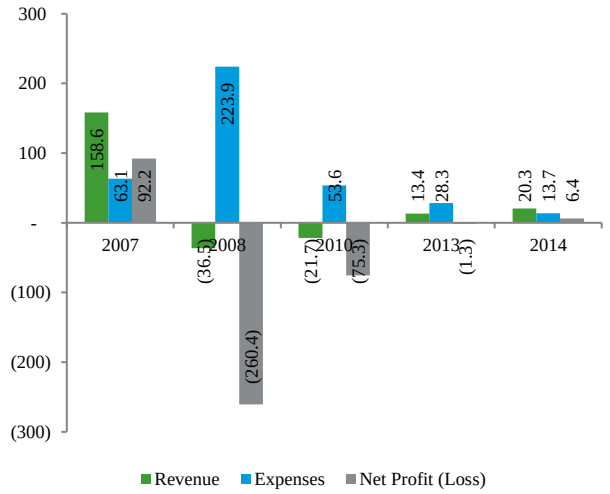
Equity Composition (KD Mn)



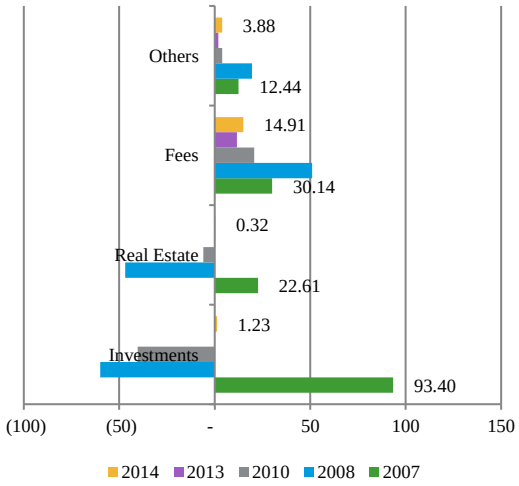
Capital Structure (KD Mn)



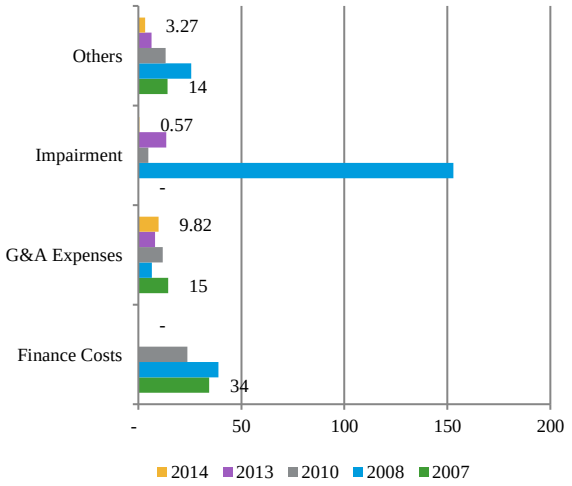
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



2. Company 2

Quick Facts	
Establishment Date	25th November 1961
Listing Date	29th September 1984
Number of Directors (Elected Directors)	9 (2)
Number of Subsidiaries	16
Number of Associates	5
Total Assets as at 31st December 2014	KD 283,159,440
Total Equity as at 31st December 2014	KD 168,569,121
Share Capital as at 31st December 2014	KD 55,125,000
Net Profit as at 31st December 2014	KD 7,430,436
Total Shares Traded in 2014 (Total Trades)	120.3 Mn Shares (3,958 Trades)
Outstanding Shares	548.0 Mn Shares
Total Share Turnover (x)	0.22
Free-Float Share Turnover (x)	0.92
Assets under Management in 2014 (in 2007)	KD 2.1 Bn (KD 2.7 Bn)

Balance Sheet Analysis:

Key highlights:

Debt includes deposits from banks & customer deposits.

i. Total Assets decreased from KD 372.7 Mn in FY 2007 to KD 283.2 Mn in FY 2014 mainly because of a decrease of "Investment Assets" & "Financing Receivables".
ii. Debt amounted to of KD 144.6 Mn in FY 2007 & was increased in FY 2008 to KD 150.8 Mn. In the subsequent years, the company started settling the debt to reach KD 98.8 Mn in FY 2014.
iii. In FY 2014, the company obtained a new loan of "Islamic Financing Payables" of KD 12.2 Mn.
iv. Shareholders' Equity dropped from KD 198.9 Mn in FY 2007 to KD 168.6 Mn in FY 2014 mainly due to huge decrease of "Retained Earnings" from KD 63.2 Mn in FY 2007 to KD 7.5 Mn in FY 2014.

Income Statement Analysis:

Key Highlights:

Stable & sustainable fee income.

Major fall in revenues attributable to dividends, interest income & increase in rental expenses.

i. Revenues declined from KD 67.1 Mn in FY 2007 to KD 13.9 Mn in FY 2014.
ii. The company's main sources of income are "Investment Income" & "Fees Income" although both are not at the same levels as FY 2007.
iii. The company also has income from "Financing Income" & "Rental Income" however they are marginal.
iv. Major impairment witnessed in FY 2008 of KD 40.4 Mn.
v. Net Profit deteriorated from KD 45.8 Mn in FY 2007 to KD (41.5) Mn in FY 2008 & stood at KD 7.4 Mn in FY 2014.
vi. In FY 2014, the company announced a plan to dispose of Kuwait International Fair Co. which resulted in a "Gain from Discontinued Operations" in both FY 2013 & 2014 by KD 2.8 Mn & KD 2.6 Mn respectively.

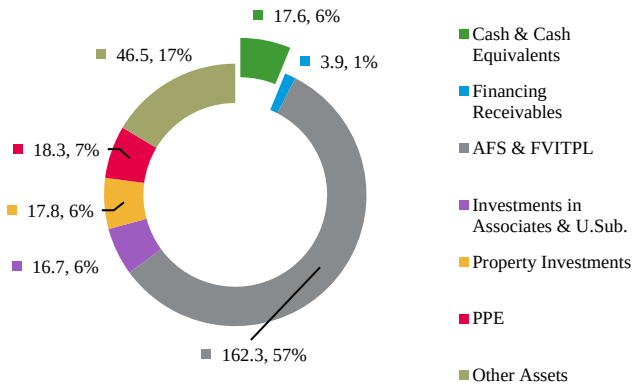
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	13.0%	(12.3%)	2.0%	8.6%	1.9%	TCI / AA
Return on Equity	25.5%	(26.3%)	1.7%	18.1%	3.0%	TCIS / AE
Solvency Ratios:						
Debt Ratio	38.8%	50.3%	50.8%	37.6%	34.9%	Debt / TA
Debt to Equity Ratio	72.7%	114.8%	109.7%	64.1%	58.6%	Debt / TE
Financial Leverage (x)	1.87	2.28	2.16	1.70	1.68	TA / TE
Interest Coverage (x)	6.45	(4.89)	1.14	16.19	14.48	EBIT / Int
CBK Ratios:						
Leverage Ratio	87.4%	128.5%	116.0%	70.4%	68.0%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	25.8%	8.3%	16.7%	37.6%	15.4%	Cash / TL
Should Exceed 10%	✓	✗	✓	✓	✓	

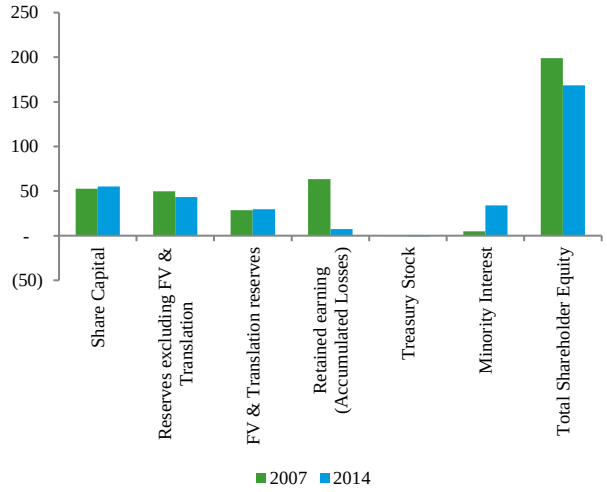
i. Profitability ratios have been radically improved in the past two years as the company witnessed profits.
ii. Solvency ratios have been declining since FY 2010 as the company was settling its debt. Furthermore, in the last two years the company generated sufficient operating profit to cover its interest costs.

Figure 2: Company 2 – Key Financial Data

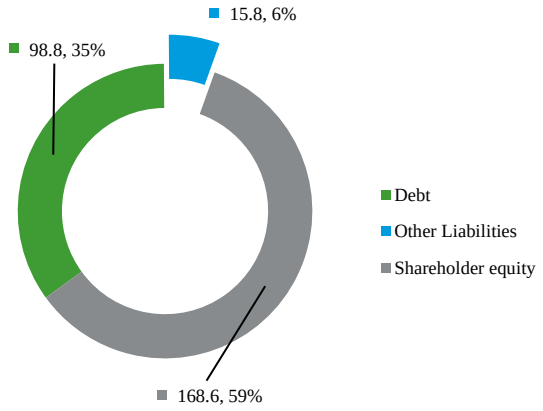
Asset Composition (KD Mn)



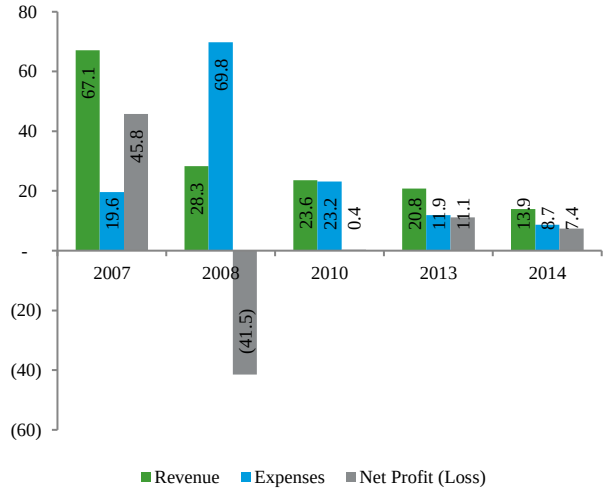
Equity Composition (KD Mn)



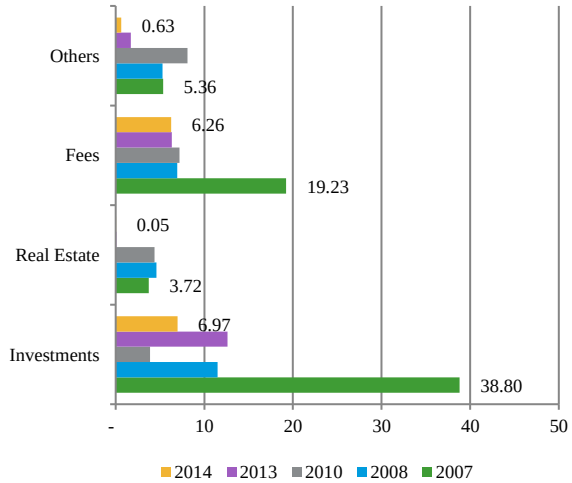
Capital Structure (KD Mn)



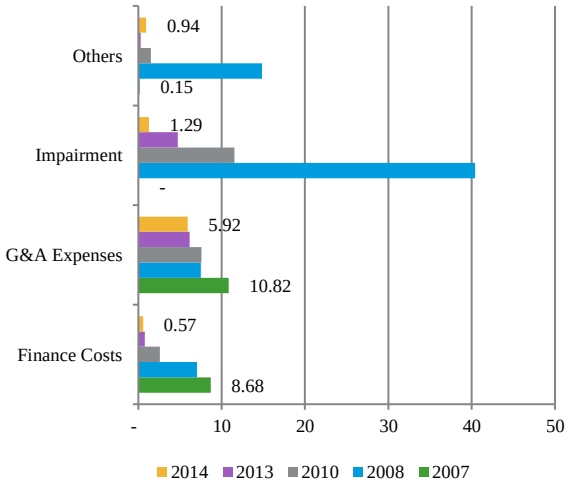
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



3. Company 3

Quick Facts	
Establishment Date	6th December 1987
Listing Date	9th July 1988
Number of Directors (Elected Directors)	7 (3)
Number of Subsidiaries	8
Number of Associates	N/A
Total Assets as at 31st December 2014	KD 207,353,000
Total Equity as at 31st December 2014	KD 194,558,000
Share Capital as at 31st December 2014	KD 87,621,000
Net Profit as at 31st December 2014	KD 6,298,000
Total Shares Traded in 2014 (Total Trades)	279.5 Mn Shares (6,578 Trades)
Outstanding Shares	855.1 Mn Shares
Total Share Turnover (x)	0.33
Free-Float Share Turnover (x)	1.01
Assets under Management in 2014 (in 2007)	KD 1.5 Bn (KD 3.7 Bn)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 417.9 Mn in FY 2007 to KD 207.4 Mn in FY 2014 mainly because of a decrease of "Investments Available for Sale", "Investment at FV through Profit or Loss" & "Cash & Cash Equivalents" by 31.7%, 68.2% & 61.5 respectively.
ii. "Investments in Associates" declined from KD 59.1 Mn in FY 2007 to KD 13.3 Mn in FY 2014 as the company has been disposing associates.
iii. Debt amounted to of KD 99.7 Mn in FY 2007. In the subsequent years, the company started settling debt to reach KD 4.1 Mn in FY 2014.
iv. Shareholders' Equity dropped from KD 295.5 Mn in FY 2007 to KD 194.6 Mn in FY 2014 mainly due to huge decrease of "Retained Earnings" from KD 91.9 Mn in FY 2007 to KD 6.8 Mn in FY 2014.

Income Statement Analysis:

Key Highlights:

Sustainable profitability.

Revenue included one-time proceeds from liquidation of GIC.

Impairment taken mainly on unquoted equity investments.

G&A expenses increasing.

i. Revenues declined from KD 74.6 Mn in FY 2007 to KD 32.6 Mn in FY 2008. In FY 2014, revenues shrank by 68.1% from FY 2007 levels.
   - In FY 2007, "Investment Income" & "Fees" compromised the largest bulk of revenues at KD 32.6 Mn & KD 32.4 Mn respectively.
   - In FY 2008, "Investment Income" declined to KD 1.6 Mn while "Fees" declined to KD 27.8 Mn, indicating a change in business model.
   - In FY 2014, "Investment Income" stands at KD 4.3 Mn & "Fees" at KD 5.1 Mn. The business model remains the same in FY 2014 but at much lower level.

ii. Major impairment witnessed in FY 2008 of KD 37.7 Mn. Also, "Finance Costs" decreased from KD 8.1 Mn in FY 2007 to KD 0.1 Mn in FY 2014.

iii. Net Profit deteriorated from KD 58.2 Mn in FY 2007 to KD (20.7) Mn in FY 2008. In FY 2014, Net Profit amounts to KD 6.3 Mn which shrank by 89.2% from FY 2007 levels.

Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	15.9%	(19.5%)	9.6%	3.6%	0.3%	TCI / AA
Return on Equity	24.7%	(27.0%)	12.0%	2.8%	0.4%	TCIS / AE
Solvency Ratios:						
Debt Ratio	23.9%	20.9%	17.4%	0.5%	2.0%	Debt / TA
Debt to Equity Ratio	33.7%	27.9%	21.9%	0.5%	2.1%	Debt / TE
Financial Leverage (x)	1.41	1.34	1.26	1.04	1.07	TA / TE
Interest Coverage (x)	8.43	(3.69)	2.79	67.13	53.79	EBIT / Int
CBK Ratios:						
Leverage Ratio	41.4%	33.8%	25.7%	3.5%	6.6%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	43.9%	16.7%	17.7%	305.3%	161.8%	Cash / TL
Should Exceed 10%	✓	✓	✓	✓	✓	

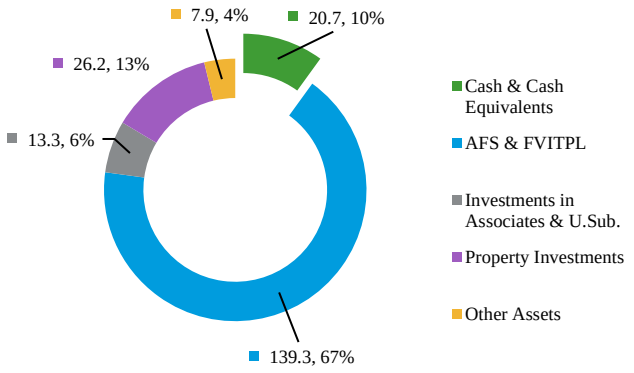
i. Profitability ratios have not been stable over the years with no fix trend over the years as the net profit was unstable over the years.

ii. Solvency ratios have exhibited a declining trend since FY 2007 as the company has been settling its debt.

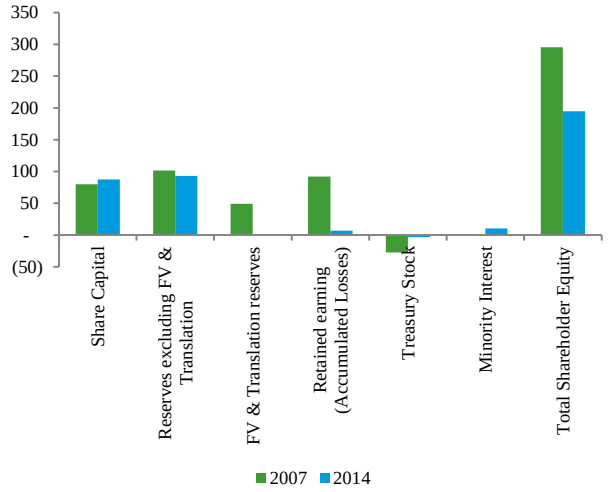
iii. As far as CBK monitored ratios are concerned, the company is amongst the most stable companies.

Figure 3: Company 3 – Key Financial Data

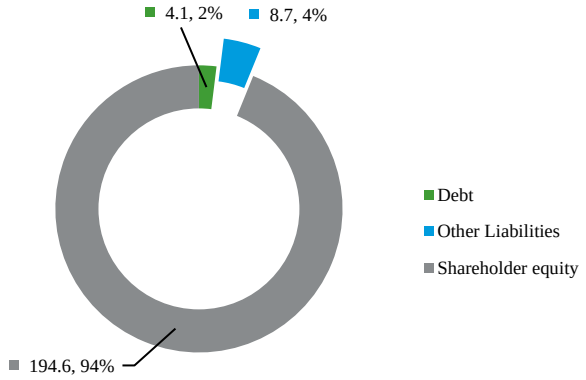
Asset Composition (KD Mn)



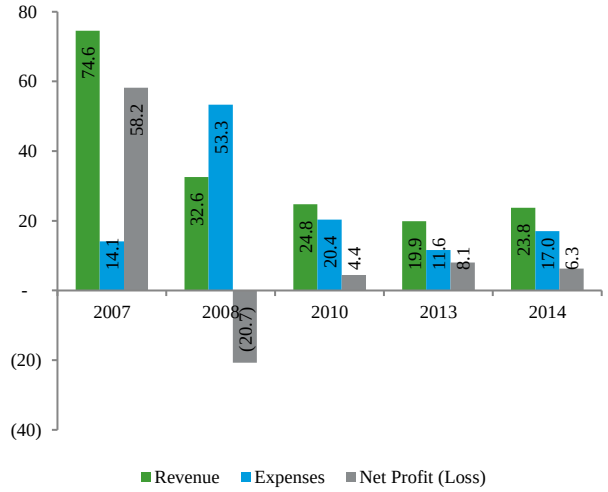
Equity Composition (KD Mn)



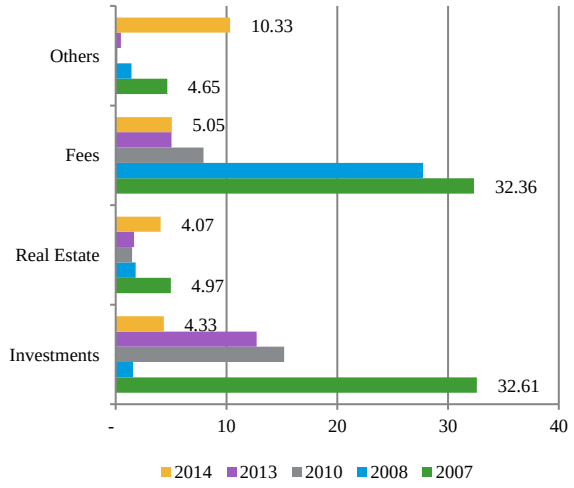
Capital Structure (KD Mn)



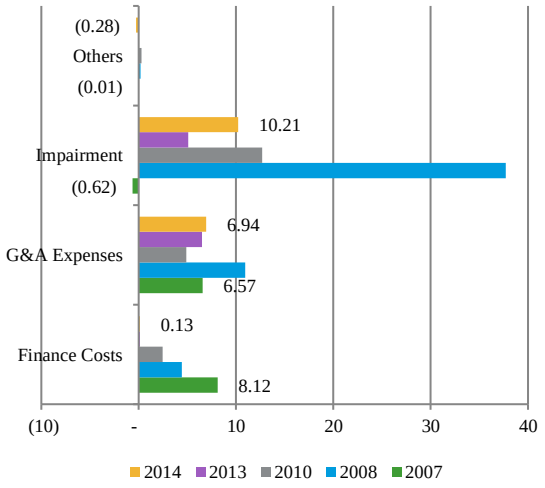
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



4. Company 4

Company 4 manages part of KIA National Real Estate Portfolio worth a maximum of KD 250 Mn.

Quick Facts	
Establishment Date	17th August 1974
Listing Date	7th April 1997
Number of Directors (Elected Directors)	8 (7)
Number of Subsidiaries	16
Number of Associates	2
Total Assets as at 31st December 2014	KD 145,038,000
Total Equity as at 31st December 2014	KD 109,947,000
Share Capital as at 31st December 2014	KD 53,130,000
Net Profit as at 31st December 2014	KD 5,017,000
Total Shares Traded in 2014 (Total Trades)	13.0 Mn Shares (616 Trades)
Outstanding Shares	480.8 Mn Shares
Total Share Turnover (x)	0.03
Free-Float Share Turnover (x)	0.04
Assets under Management in 2014 (in 2007)	KD 1.1 Bn (KD 1.2 Bn)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 187.7 Mn in FY 2007 to KD 145.0 Mn in FY 2014 mainly because of a decrease of "Investments at FV through Profit or Loss" by 30.4% and a decrease of "Financing Receivables" by 74.7% .
ii. "Property Investments" increased from KD 3.1 Mn in FY 2007 to KD 24.2 Mn in FY 2014.
iii. Debt amounted to of KD 50.7 Mn in FY 2007 & was increased in FY 2008 to KD 51.2 Mn. In the subsequent years, the company started settling its debt to reach KD 26.7 Mn in FY 2014.
iv. Shareholders' Equity dropped from KD 131.2 Mn in FY 2007 to KD 110.0 Mn in FY 2014 mainly due to huge decrease of "Retained Earnings" from KD 36.6 Mn in FY 2007 to KD 5.6 Mn in FY 2014.

Income Statement Analysis:

Key Highlights:

Stable fee income.

Increasing real estate returns provides further stable revenue base.

Increasing G&A expenses is a cause of concern.

Sustainable profitability over the years.

i. Revenues declined from KD 38.2 Mn in FY 2007 to KD (4.9) Mn in FY 2008. In FY 2014, revenues shrank by 62.6% from FY 2007 levels.
   - In FY 2007, "Investment Income" compromised the largest bulk of revenues at KD 20.4 Mn followed by "Fees" at KD 15.7 Mn.
   - In FY 2008, "Investment Income" declined to KD (18.9) Mn while "Fees" declined to KD 10.9 Mn.
   - In FY 2014, "Investment Income" stands at KD 3.2 Mn & "Fees" at KD 7.6 Mn. The business model remains the same in FY 2014 but at much lower level. AUM's during FY 2007 was KD 1.2 Bn while it is KD 1.1 Bn today, indicating lower fee percentages.

ii. Major impairment witnessed in FY 2008 of KD 5.3 Mn.

iii. Net Profit deteriorated from KD 27.0 Mn in FY 2007 to KD (18.8) Mn in FY 2008. In FY 2014, Net Profit amounted to KD 5.0 Mn which shrank by 81.4% from FY 2007 levels.

Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	16.4%	(24.8%)	8.4%	7.8%	4.7%	TCI / AA
Return on Equity	22.8%	(38.2%)	12.3%	10.0%	5.6%	TCIS / AE
Solvency Ratios:						
Debt Ratio	27.0%	38.7%	27.4%	16.1%	18.4%	Debt / TA
Debt to Equity Ratio	38.6%	66.7%	39.7%	20.2%	24.3%	Debt / TE
Financial Leverage (x)	1.43	1.72	1.45	1.26	1.32	TA / TE
Interest Coverage (x)	13.12	(5.81)	10.83	8.34	5.76	EBIT / Int
CBK Ratios:						
Leverage Ratio	43.0%	72.3%	45.3%	25.5%	31.9%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	4.3%	20.6%	13.3%	26.4%	22.6%	Cash / TL
Should Exceed 10%	✗	✓	✓	✓	✓	

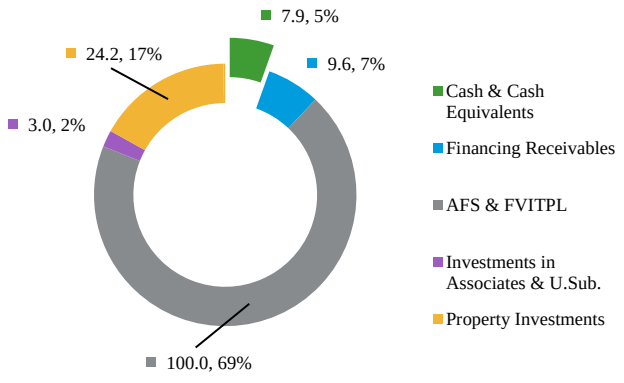
i. Profitability ratios have been declining since FY 2010 as profits have been declining. The decline in revenues is mainly from "Investment Income" which has been decreasing over the years.

ii. Solvency ratios have exhibited a declining trend since FY 2008 as the company has been settling its debt.

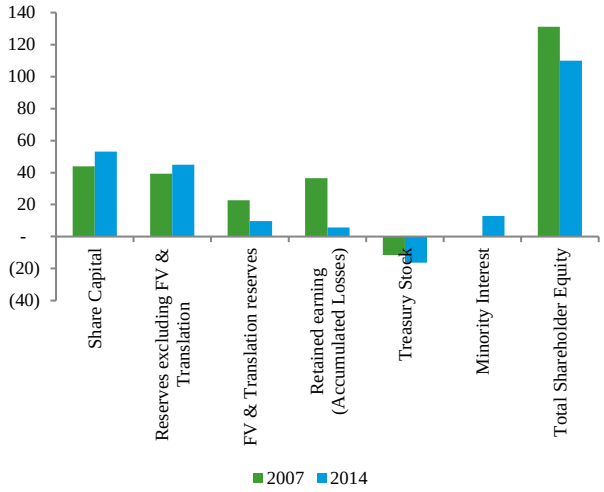
iii. As far as CBK monitored ratios are concerned, the company is among the most stable companies.

Figure 4: Company 4 – Key Financial Data

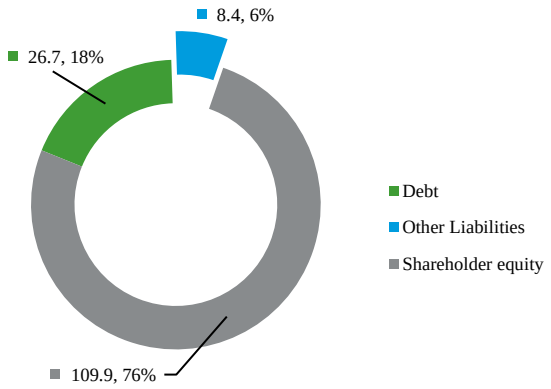
Asset Composition (KD Mn)



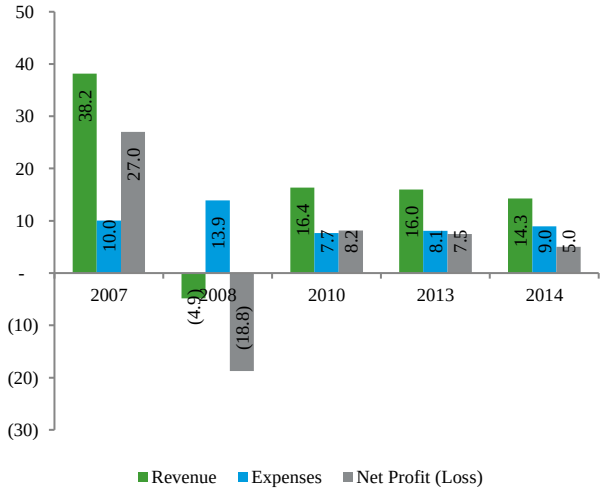
Equity Composition (KD Mn)



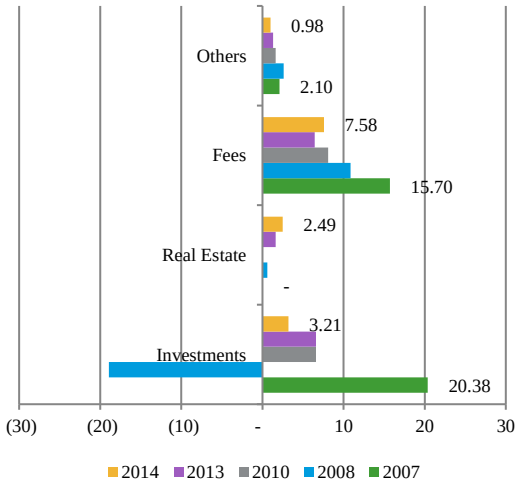
Capital Structure (KD Mn)



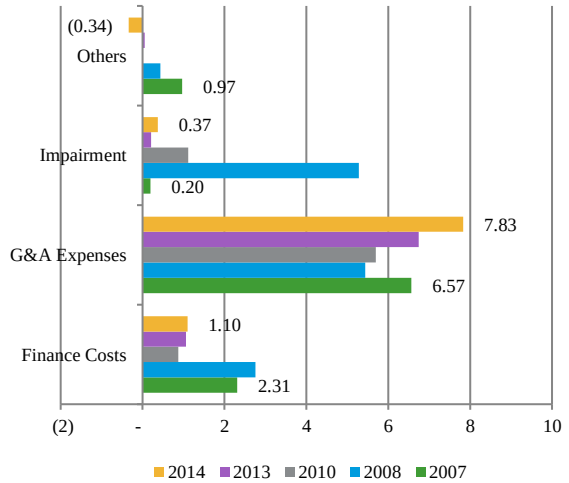
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



5. Company 5

Quick Facts	
Establishment Date	3rd March 1997
Listing Date	29th May 2006
Number of Directors (Elected Directors)	6 (5)
Number of Subsidiaries	6
Number of Associates	8
Total Assets as at 31st December 2014	KD 253,324,627
Total Equity as at 31st December 2014	KD 156,779,089
Share Capital as at 31st December 2014	KD 31,185,000
Net Profit as at 31st December 2014	KD 9,447,799
Total Shares Traded in 2014 (Total Trades)	51.6 Mn Shares (2,363 Trades)
Outstanding Shares	281.4 Mn Shares
Total Share Turnover (x)	0.18
Free-Float Share Turnover (x)	0.55
Assets under Management in 2014 (in 2007)	KD 267.6 Mn (KD 461.4 Mn)

Balance Sheet Analysis:

Key highlights:

i. Total assets decreased from KD 239.7 Mn in FY 2007 to KD 148.5 Mn in FY 2013 mainly because of a decrease of "Investment Assets". In FY 2014, it stood at KD 253.3 due to an increase "Investment in Associates".
ii. In FY 2014, the company acquired additional shares in two existing associates & acquired another three new associates.
iii. Debt amounted to of KD 65.4 Mn in FY 2007 & decreased to KD 29.9 Mn in FY 2012 on account of debt settlement. In FY 2013 and FY 2014, the company took debt to amount to KD 74.3 Mn.
iv. In FY 2013 & 2014, the company raised new bank facilities of KD 5.4 Mn & KD 38.9 Mn respectively for the purpose of acquiring associates.
v. Shareholders' Equity dropped from KD 169.2 Mn in FY 2007 to KD 156.8 Mn in FY 2014 primarily due to a decrease in "Fair Value & Translation Reserves".

Income Statement Analysis:

FY 2014 witnessed the highest profits since 2007.

Low fee income considering AUM of KD 267.7 Mn.

Major reduction in G&A.

Key Highlights:

i. Revenues declined from KD 14.3 Mn in FY 2007 to KD 13.0 Mn in FY 2014.
ii. The company's focus in generating income is "Investment Income" & in FY 2014 it has achieved the highest return from it of KD 12.8 Mn. "AFS Investments" generated KD 6.4 Mn in dividends, while "AFS Sale" generated KD 2.25 Mn in gains.
iii. The company also generates minimal income through "Fees Income".
iv. The company did not record any impairment over the years.
v. Net Profit deteriorated from KD 8.7 Mn in FY 2007 to KD 1.8 Mn in FY 2008 & outperformed FY 2007 level by FY 2014 to reach KD 9.4 Mn.

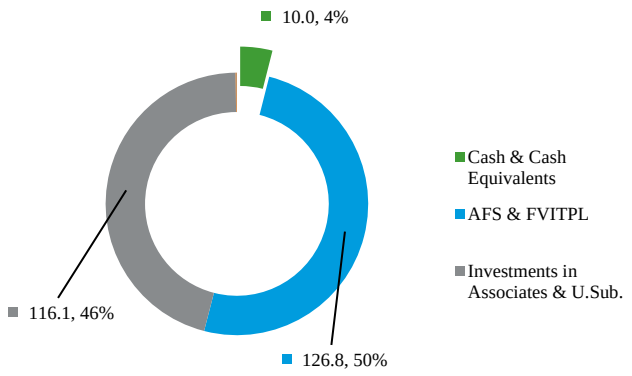
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	4.2%	(43.0%)	25.1%	21.9%	17.8%	TCI / AA
Return on Equity	5.8%	(67.3%)	42.4%	29.5%	27.4%	TCIS / AE
Solvency Ratios:						
Debt Ratio	27.3%	41.8%	35.5%	23.8%	29.3%	Debt / TA
Debt to Equity Ratio	38.6%	78.0%	55.9%	31.4%	47.4%	Debt / TE
Financial Leverage (x)	1.42	1.87	1.57	1.32	1.62	TA / TE
Interest Coverage (x)	2.87	1.36	2.26	4.37	5.99	EBIT / Int
CBK Ratios:						
Leverage Ratio	41.7%	86.5%	57.5%	32.0%	61.6%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	0.9%	6.1%	10.3%	8.2%	10.4%	Cash / TL
Should Exceed 10%	✗	✗	✓	✗	✓	

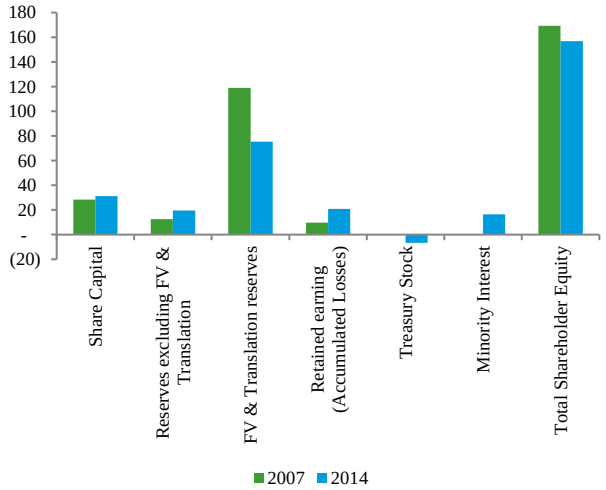
i. Profitability ratios have been astonishing for the company. It remains the only surveyed company that has generated positive net profit or its shareholders.
ii. Solvency ratios have been fluctuating as the company been taking debt in one year & settling the debt in another. The company's solvency ratios indicate stability & the company can meet its interest costs.

Figure 5: Company 5 – Key Financial Data

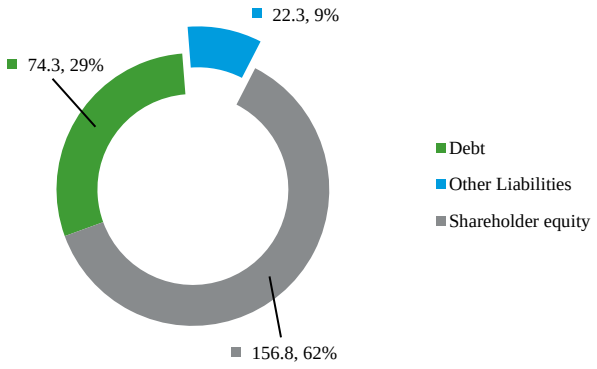
Asset Composition (KD Mn)



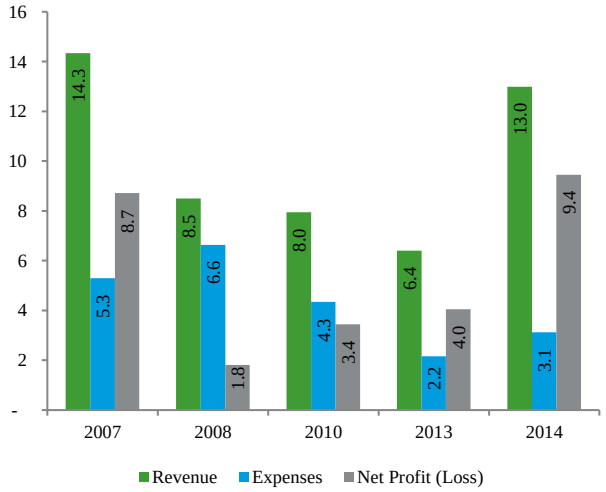
Equity Composition (KD Mn)



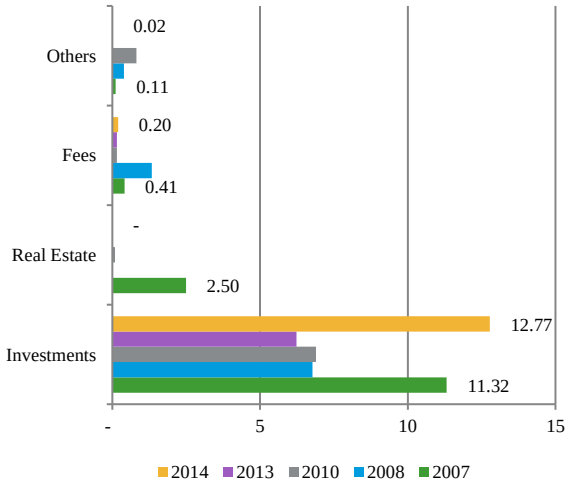
Capital Structure (KD Mn)



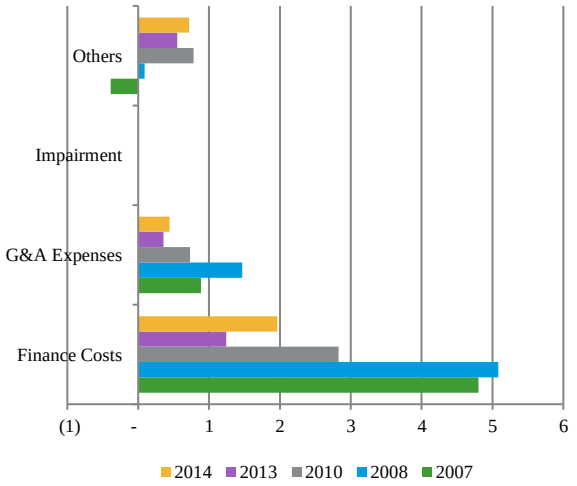
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



6. Company 6

Quick Facts	
Establishment Date	26th July 1997
Listing Date	1st December 2001
Number of Directors (Elected Directors)	7 (3)
Number of Subsidiaries	10
Number of Associates	7
Total Assets as at 31st December 2014	KD 146,685,931
Total Equity as at 31st December 2014	KD 112,350,464
Share Capital as at 31st December 2014	KD 65,107,055
Net Profit as at 31st December 2014	KD 7,952,647
Total Shares Traded in 2014 (Total Trades)	208.9 Mn Shares (4,786 Trades)
Outstanding Shares	649.9 Mn Shares
Total Share Turnover (x)	0.32
Free-Float Share Turnover (x)	0.50
Assets under Management in 2014 (in 2007)	KD 88.7 Mn (KD 67.2 Mn)

Balance Sheet Analysis:

Key highlights:

Ample amount of cash.

KD 26.9 Mn of property investments to form part of debt asset swap in FY 2015.

i. Total Assets decreased from KD 215.6 Mn in FY 2007 to KD 146.7 Mn in FY 2014 mainly because of a decrease of "Investments Available for Sale".
ii. "Cash & Cash Equivalents" increased from KD 5.6 Mn FY 2013 to KD 36.9 Mn in FY 2014 due to the disposal of "Properties under Development", proceeds from disposal amounted to KD 39.5 Mn.
iii. 50% of assets comprise investment in associates and AFS&FVITPL, both of which are generating low returns to the company, implying carrying values are high. The same requires valuation and impairment studies. **One of the 'quoted' associates is carried at KD 10.3 Mn above the market price.**
iv. Debt amounted to of KD 66.2 Mn in FY 2007 & was increased in FY 2008 to KD 110.0 Mn. In the subsequent years, the company started settling its debt to reach KD 27.8 Mn in FY 2014.

Income Statement Analysis:

Key Highlights:

Fee yield of 0.8%.

Real estate income is large due to one-time sale.

No disclosure on sudden increase in other expenses.

KD 10 Mn impairment take on Burgan Drilling.

i. Revenues declined from KD 37.3 Mn in FY 2007 to KD 0.3 Mn in FY 2010. In FY 2014, revenues improved to KD 25.4 Mn, but attributable to the sale of "Properties under Development" with a gain of KD 22.4 Mn.
ii. The company's sources of income diminished during the years & generated very low levels of revenues.
iii. The company would have faced losses in the past two years given the "Change in FV of Property Investments" in FY 2013 & for the sale of "Properties under Development" in FY 2014.
iv. Major impairment witnessed in FY 2008 & FY 2014 of KD 11.9 Mn & KD 12.1 Mn respectively.
v. Net Profit deteriorated from KD 25.4 Mn in FY 2007 to KD (10.5) Mn in FY 2010 & improved gradually since to KD 8.0 Mn in FY 2014, but the improvement of net profit was accomplished based on one time revenues in FY '14.

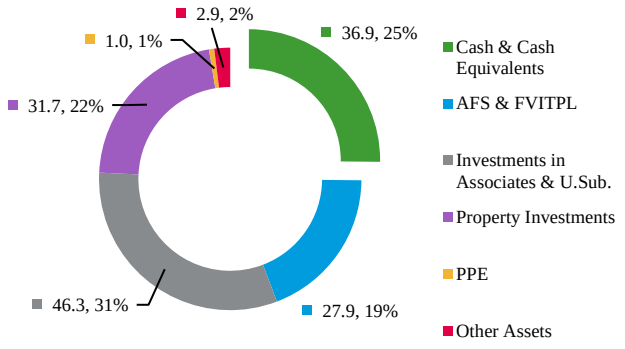
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	14.3%	1.4%	(6.5%)	0.4%	6.2%	TCI / AA
Return on Equity	22.4%	2.5%	(15.7%)	0.4%	5.3%	TCIS / AE
Solvency Ratios:						
Debt Ratio	30.7%	43.9%	49.5%	18.9%	18.9%	Debt / TA
Debt to Equity Ratio	47.4%	84.9%	115.2%	24.1%	24.7%	Debt / TE
Financial Leverage (x)	1.54	1.93	2.33	1.27	1.31	TA / TE
Interest Coverage (x)	7.74	1.52	(0.82)	1.31	27.53	EBIT / Int
CBK Ratios:						
Leverage Ratio	54.4%	93.3%	133.0%	27.4%	30.6%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	0.9%	1.0%	7.2%	18.1%	107.5%	Cash / TL
Should Exceed 10%	✗	✗	✗	✓	✓	

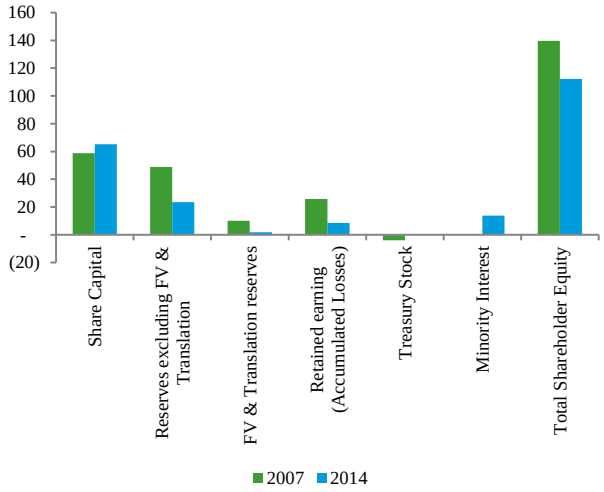
i. Profitability ratios have been declining over the years as net profit & total revenues have declined by 68.7% & 32.1% respectively in FY 2014 as compared to FY 2007 levels. In FY 2014, the company's profitability ratios would still be declining given the gain from sale of properties under development.
ii. Solvency ratios improved throughout the years as debt declined, debt ratio & debt to equity ratio declined in return. Also, finance costs declined as debt was being settled which led to a better interest coverage ratio.

Figure 6: Company 6 – Key Financial Data

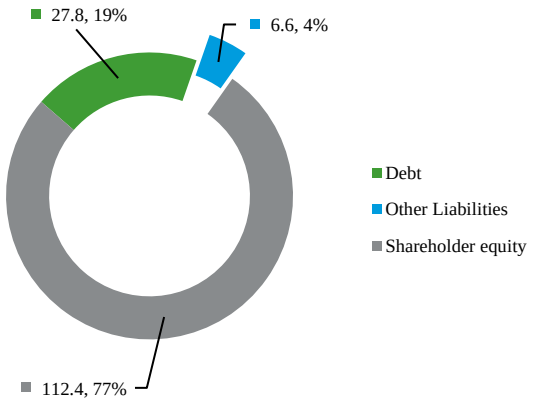
Asset Composition (KD Mn)



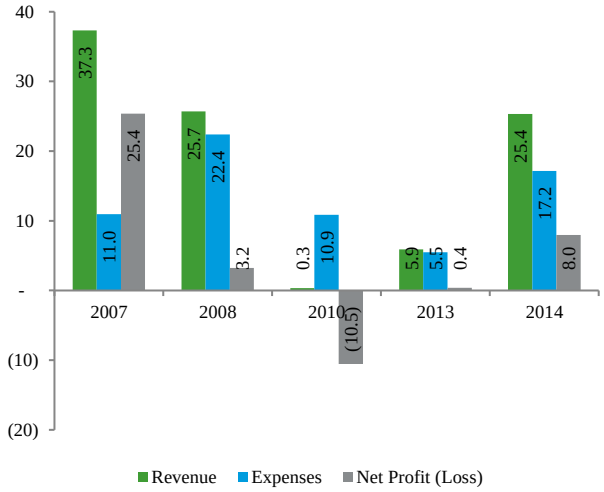
Equity Composition (KD Mn)



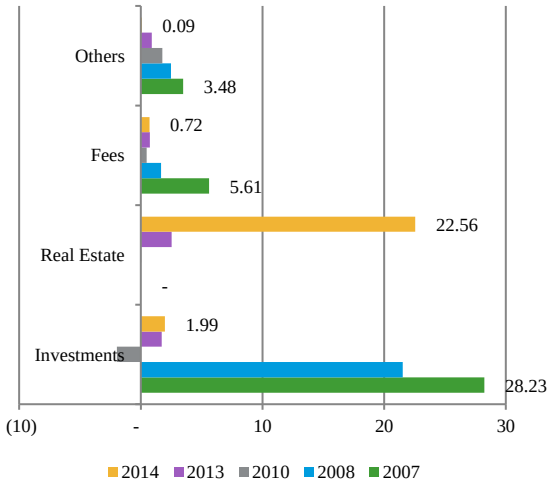
Capital Structure (KD Mn)



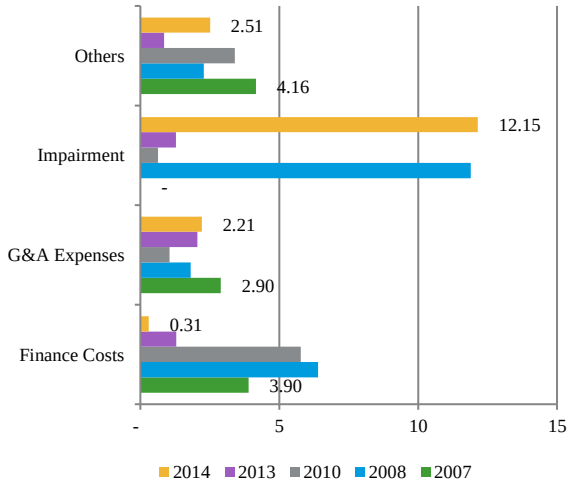
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



7. Company 7

The financials of FY 2008 are 15 months ended on 31st March, 2008.

Quick Facts	
Establishment Date	24th October 1981
Listing Date	21st December 1996
Number of Directors (Elected Directors)	6 (3)
Number of Subsidiaries	5
Number of Associates	7
Total Assets as at 31st December 2014	KD 123,445,451
Total Equity as at 31st December 2014	KD 60,043,213
Share Capital as at 31st December 2014	KD 25,528,372
Net Profit as at 31st December 2014	KD 3,391,510
Total Shares Traded in 2014 (Total Trades)	6.5 Mn Shares (612 Trades)
Outstanding Shares	254.9 Mn Shares
Total Share Turnover (x)	0.03
Free-Float Share Turnover (x)	0.09
Assets under Management in 2014 (in 2007)	N/A (N/A)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 167.1 Mn in FY 2007 to KD 119.3 Mn in FY 2014 mainly because of a decrease of "Investment Assets".
ii. Debt amounted to of KD 60.9 Mn in FY 2007 remained stable over the years & was KD 59.2 Mn in FY 2014.
iii. The company has been settling debt in one year & taking debt in another for the purpose of acquiring assets.
iv. Shareholders' Equity dropped from KD 103.9 Mn in FY 2007 to KD 55.9 Mn in FY 2014 mainly due to huge decrease of "Retained Earnings" from KD 45.4 Mn in FY 2007 to KD 18.6 Mn in FY 2014. Additionally, "FV & Translation Reserves" decreased as well.
v. "Accumulated Losses" have decreased over the years due to the losses made in FY 2009 & FY 2013 as well as dividends paid to shareholders during the years.

Income Statement Analysis:

Key Highlights:

i. Revenues declined from KD 40.2 Mn in FY 2007 to KD 8.9 Mn in FY 2014.
ii. The company mainly generates income through "Investment Income" & "Fees Income". Moreover, the company generates income through "Rental Income", "Financing Income" & "Commission Income".
iii. Major impairment witnessed in FY 2010 of KD 4.3 Mn.
iv. Net Profit deteriorated from KD 34.9 Mn in FY 2007 to KD 12.6 Mn in FY 2010 & stood at KD 3.4 Mn in FY 2014.
v. The company is well diversified in its operations.

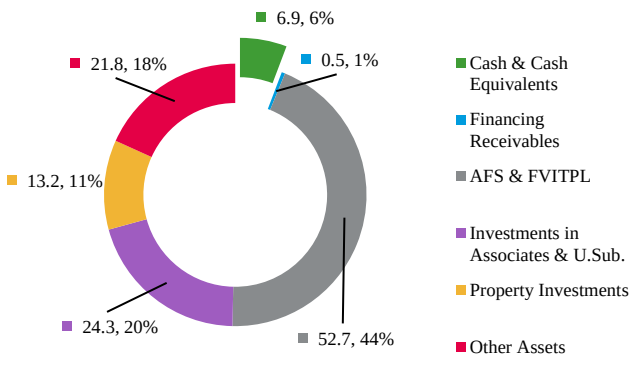
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	24.5%	23.2%	3.3%	(3.0%)	5.2%	TCI / AA
Return on Equity	43.8%	36.8%	6.3%	(5.6%)	11.2%	TCIS / AE
Solvency Ratios:						
Debt Ratio	36.5%	32.4%	40.4%	52.5%	49.6%	Debt / TA
Debt to Equity Ratio	58.6%	50.7%	72.0%	114.9%	105.7%	Debt / TE
Financial Leverage (x)	1.61	1.57	1.78	2.19	2.13	TA / TE
Interest Coverage (x)	7.51	7.59	2.68	(2.44)	3.36	EBIT / Int
CBK Ratios:						
Leverage Ratio	60.7%	56.7%	78.1%	118.8%	113.4%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	20.6%	10.0%	4.8%	10.8%	10.9%	Cash / TL
Should Exceed 10%	✓	✓	✗	✓	✓	

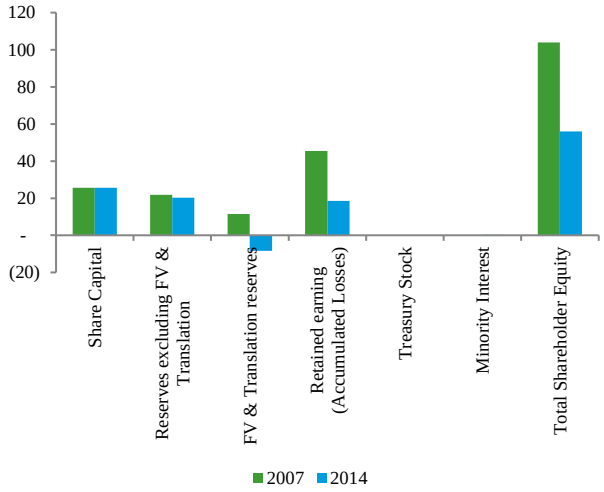
i. Liquidity has been an issue for the company but it has improved lately & the company has adequate resources to meet its short term obligations.
ii. Profitability ratios have been declining since 2008 due to the declining profits. In FY 2013, the company made losses & the ratios were negative but it turned it around in FY 2014 as the company made profits.
iii. Solvency ratios were stable over the years as the company was settling debt in one year & taking on debt in another for the purpose of acquiring assets.
iv. As per CBK's principles, leverage ratio should not exceed 200%, & the company managed to keep it below 200% over the years indicating the healthy use of debt to finance its operations. On the other hand, quick ratio should exceed 10% & the company managed to achieve it over the years, other than FY 2010, indicating the ability of the company to meet its obligations.

Figure 7: Company 7 – Key Financial Data

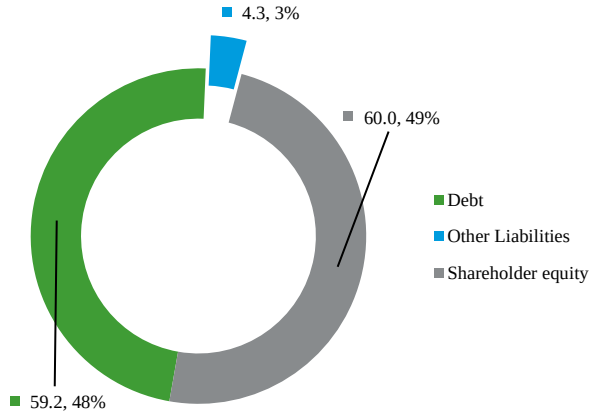
Asset Composition (KD Mn)



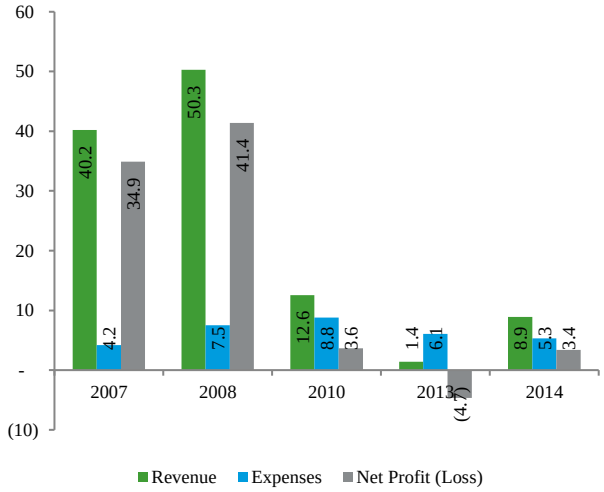
Equity Composition (KD Mn)



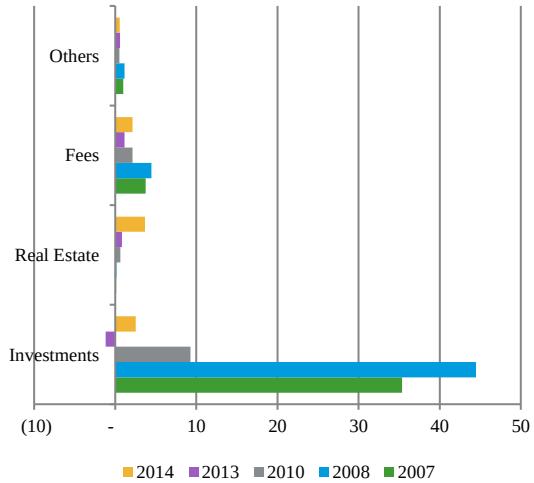
Capital Structure (KD Mn)



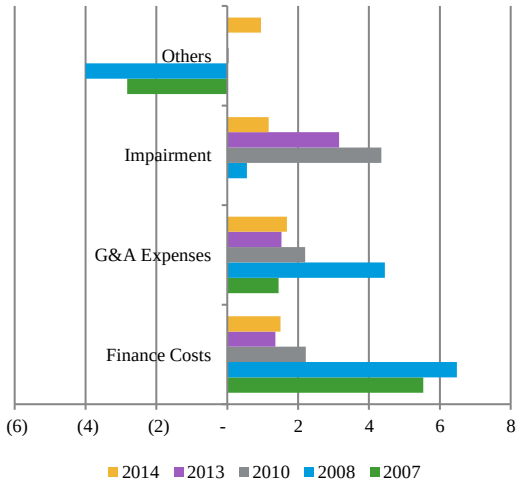
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



8. Company 8

Quick Facts	
Establishment Date	28th September 1998
Listing Date	20th October 2003
Number of Directors (Elected Directors)	6 (4)
Number of Subsidiaries	9
Number of Associates	9
Total Assets as at 31st December 2014	KD 67,746,513
Total Equity as at 31st December 2014	KD 39,766,041
Share Capital as at 31st December 2014	KD 26,330,175
Net Profit as at 31st December 2014	KD 1,960,111
Total Shares Traded in 2014 (Total Trades)	7.4 Mn Shares (606 Trades)
Outstanding Shares	238.4 Mn Shares
Total Share Turnover (x)	0.03
Free-Float Share Turnover (x)	0.14
Assets under Management in 2014 (in 2007)	KD 3.5 Bn (KD 2.5 Bn)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 194.6 Mn in FY 2007 to KD 67.7 Mn in FY 2014 mainly because of a decrease of "Investments Available for Sale" by 68.2%.
ii. "Investments in Associates" declined from KD 64.1 Mn in FY 2007 to KD 23.0 Mn in FY 2014.
iii. Debt amounted to of KD 69.6 Mn in FY 2007 & was increased in FY 2008 to KD 80.1 Mn. In the subsequent years, the company started settling its debt to reach KD 24.2 Mn in FY 2014.
iv. Shareholders' Equity dropped from KD 116.6 Mn in FY 2007 to KD 39.8 Mn in FY 2014 mainly due to huge decrease of "Retained Earnings" from KD 49.2 Mn in FY 2007 to KD 2.4 Mn in FY 2014.
v. "Assets under Management" amounted to KD 3.5 Bn in FY 2014 compared to KD 2.5 Bn in FY 2007. The company has been among the early movers in being FATCA and CMA compliant, enabling license for new investment products.

Income Statement Analysis:

Key Highlights:

Fee income being sustained.

Significant fall in investment income over the years.

Major reduction in G&A expenses.

Debt levels reduced.

Stable revenues & net profit in the past few years.

i. Revenues declined from KD 54.4 Mn in FY 2007 to KD 23.1 Mn in FY 2008. In FY 2014, revenues are 85.1% of FY 2007 levels.
   - In FY 2007, "Investment Income" compromised the largest bulk of revenues at KD 34.3 Mn followed by "Fees" of KD 18.8 Mn.
   - In FY 2008, "Investment Income" declined to KD 6.4 Mn while "Fees" declined to KD 15.6 Mn, indicating a change in business model.
   - In FY 2014, "Investment Income" stood at KD 2.6 Mn & "Fees" at KD 5.1 Mn. The business model remains the same in FY 2014 but at much lower level. It is interesting to note is that AUM's during FY 2007 was KD 2.5 Bn while it is KD 3.5 Bn today, indicating lower fee percentages.

ii. Major impairment witnessed in FY 2008 of KD 8.2 Mn.

iii. Net Profit deteriorated from KD 37.1 Mn in FY 2007 to KD 1.6 Mn in FY 2008 & sustained at those levels to date (2.0 Mn in FY 2014).

Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	22.2%	0.6%	1.5%	4.6%	5.0%	TCI / AA
Return on Equity	37.0%	1.1%	2.9%	10.2%	9.4%	TCIS / AE
Solvency Ratios:						
Debt Ratio	35.8%	44.5%	43.6%	41.0%	35.7%	Debt / TA
Debt to Equity Ratio	59.7%	85.0%	80.8%	77.3%	60.8%	Debt / TE
Financial Leverage (x)	1.67	1.91	1.85	1.88	1.70	TA / TE
Interest Coverage (x)	10.99	1.24	1.48	2.95	2.60	EBIT / Int
CBK Ratios:						
Leverage Ratio	66.9%	91.2%	85.3%	88.3%	70.4%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	7.7%	8.0%	14.7%	16.9%	20.1%	Cash / TL
Should Exceed 10%	✗	✗	✓	✓	✓	

i. Liquidity has been unstable over the years & in FY 2014 the company's liquidity dropped & it won't be able to meet its short term obligations.

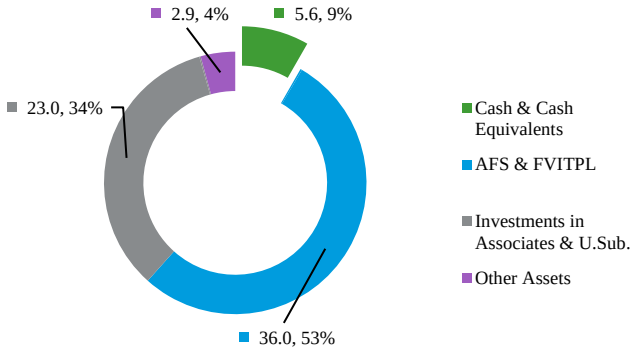
ii. Profitability ratios have been good over the years as the company has been making profits. In FY 2014, net profit declined compared to FY 2013 hence the profitability ratios dropped.

iii. Solvency ratios have been stable over the years as the company was settling its debt & both assets & equity were decreasing.

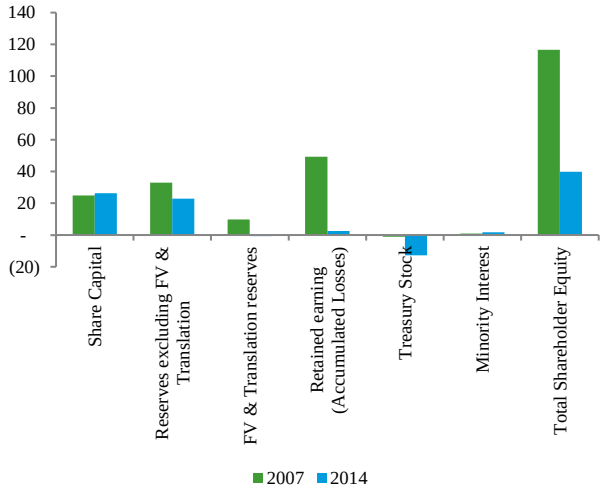
iv. As per CBK's guidelines, leverage ratio should not exceed 200%, & the company did manage to keep it below 200% over the years indicating the healthy use of debt to finance its operations. On the other hand, quick ratio should exceed 10% & the company did manage to achieve it in FY 2010, 2013 & 2014 indicating the ability of the company to meet its obligations.

Figure 8: Company 8 – Key Financial Data

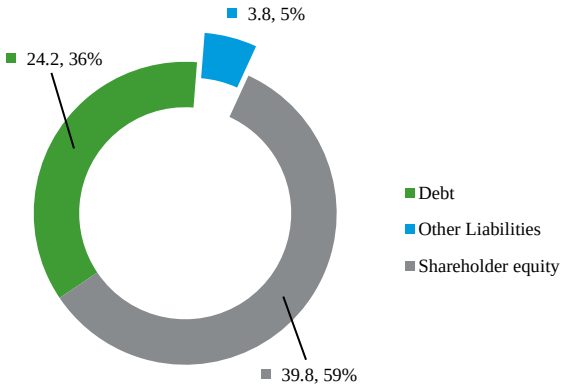
Asset Composition (KD Mn)



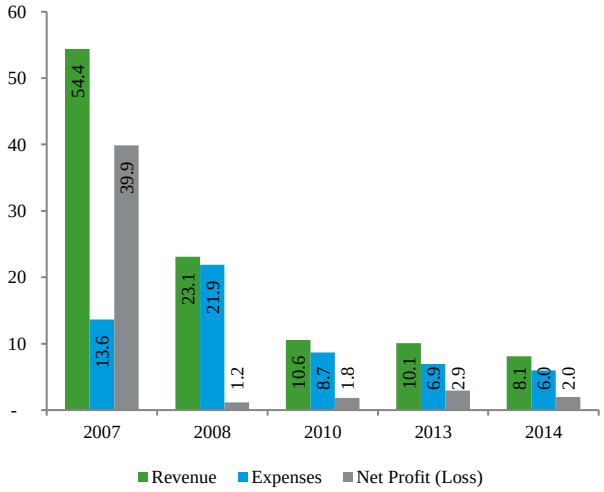
Equity Composition (KD Mn)



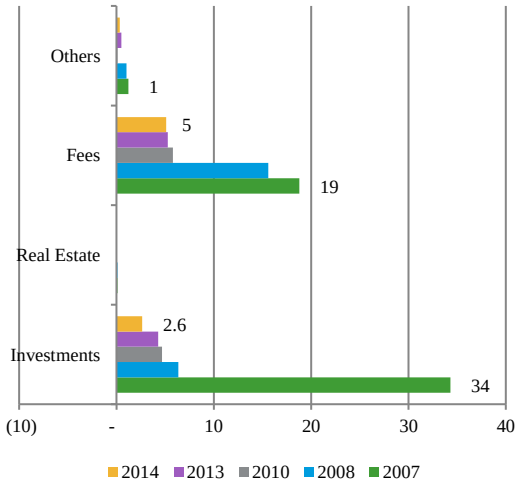
Capital Structure (KD Mn)



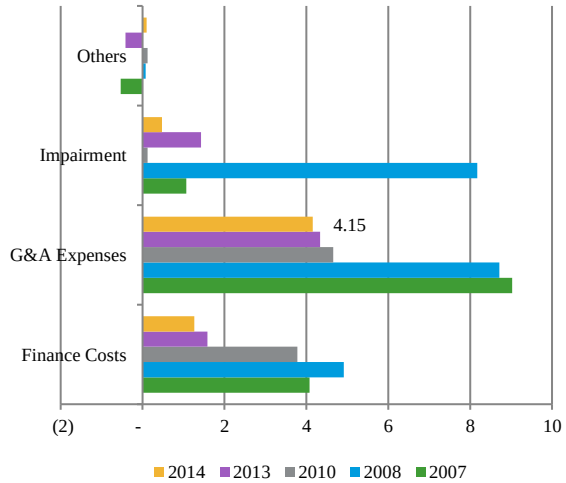
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



9. Company 9

Quick Facts	
Establishment Date	12th December 2005
Listing Date	24th November 2009
Number of Directors (Elected Directors)	8 (6)
Number of Subsidiaries	14
Number of Associates	0
Total Assets as at 31st December 2014	KD 125,597,269
Total Equity as at 31st December 2014	KD 107,187,111
Share Capital as at 31st December 2014	KD 80,000,000
Net Profit as at 31st December 2014	KD 2,730,974
Total Shares Traded in 2014 (Total Trades)	104.3 Mn Shares (3,961 Trades)
Outstanding Shares	776.4 Mn Shares
Total Share Turnover (x)	0.13
Free-Float Share Turnover (x)	0.17
Assets under Management in 2014 (in 2007)	KD 178.8 Mn (N/A)

Balance Sheet Analysis:

Key highlights:

i. Total Assets increased from KD 97.4 Mn in FY 2007 to KD 125.6 Mn in FY 2014 mainly because of an increase of "Investment Assets".
ii. KD 120 Mn of assets outside Kuwait & GCC.
iii. "Other Assets" include an amount of KD 15.1 Mn which is due from brokers.
iv. Extensive use of derivative such as interest rate swaps, total return equity swaps, forward contracts and futures, with a total notional value of KD 65.31 Mn
v. Debt amounted to of KD 0.1 Mn in FY 2007. The company is debt-free since FY 2008.
vi. Shareholders' Equity increased from KD 96.7 Mn in FY 2007 to KD 107.2 Mn in FY 2014 mainly due to an increase of "Reserves" & "Minority Interest" while "Retained Earnings" decreased from KD 15.0 Mn in FY 2007 to KD 4.3 Mn in FY 2014 but not as much as the increase in the other balances.

Income Statement Analysis:

Management & advisory fee substantially increased.

Consistent investment income.

Staff expenses of KD 3.9 Mn. Increase by KD 1.0 Mn.

Key Highlights:

i. Revenues declined from KD 12.8 Mn in FY 2007 to KD (19.2) Mn in FY 2008. In FY 2014, revenues are restored back KD 9.3 Mn.
ii. The company focuses & generates income through "Financing Income", "Investment Income" & "Fees Income".
iii. In FY 2008, the company encountered "Unrealized Loss on Investments at FV through Income Statement" which led to that year's enormous Net Loss of KD (20.9) Mn.
iv. The company is doing well but it needs to control its expenses as "G&A Expenses" have been rising over the years to achieve enhanced profits.
v. Net Profit deteriorated from KD 11.1 Mn in FY 2007 to KD (20.9) Mn in FY 2008 & stood at KD 2.7 Mn in FY 2014.

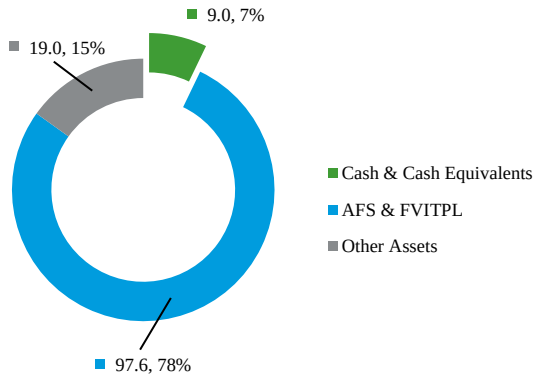
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	11.54%	(24.5%)	5.4%	1.5%	3.5%	TCI / AA
Return on Equity	12.2%	(25.5%)	5.5%	1.9%	3.1%	TCIS / AE
Solvency Ratios:						
Debt Ratio	0.1%	0.0%	0.0%	0.0%	0.0%	Debt / TA
Debt to Equity Ratio	0.1%	0.0%	0.0%	0.0%	0.0%	Debt / TE
Financial Leverage (x)	1.01	1.09	1.06	1.09	1.17	TA / TE
Interest Coverage (x)	22.09	(2,512.72)	244.76	6.23	22.60	EBIT / Int
CBK Ratios:						
Leverage Ratio	0.7%	8.9%	5.8%	9.3%	17.2%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	3485.1%	532.2%	353.8%	103.1%	48.7%	Cash / TL
Should Exceed 10%	✓	✓	✓	✓	✓	

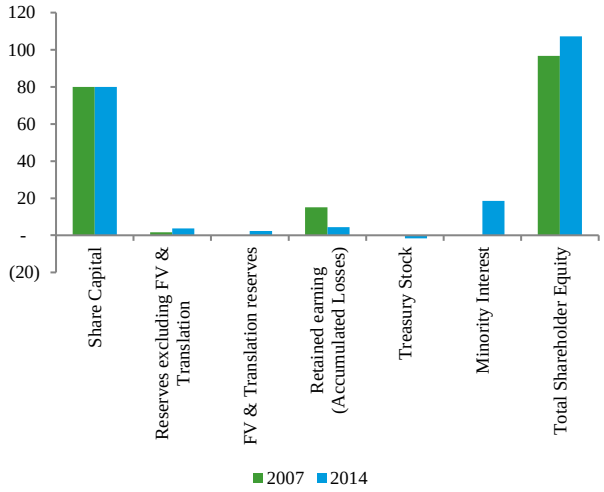
i. Profitability ratios have been unstable over the years as the company's profits have been unstable. In FY 2014, the ratios improved compared to FY 2013 as the company's profits increased.
ii. Solvency ratios have been 0% since the company settled all of its debt in FY 2008. The company does not depend on debt to finance its operations.

Figure 9: Company 9 – Key Financial Data

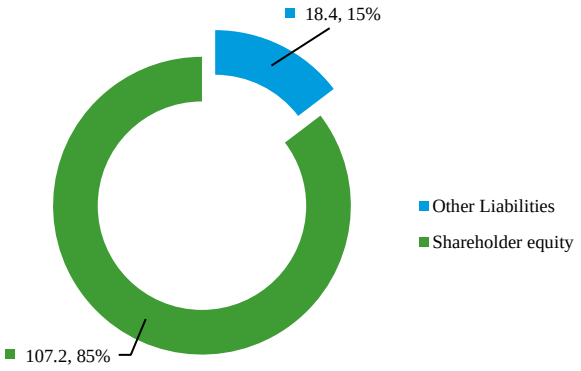
Asset Composition (KD Mn)



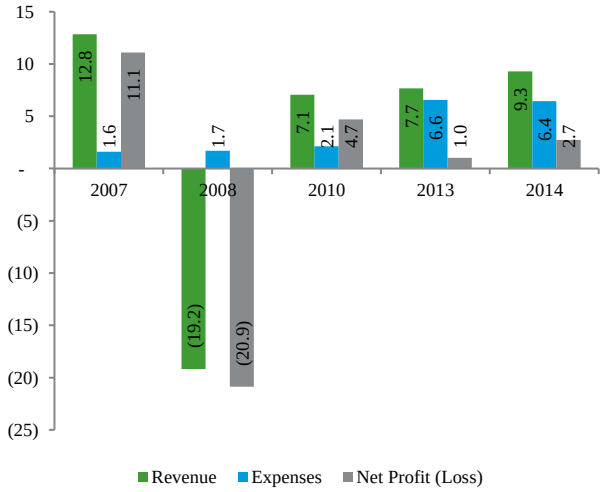
Equity Composition (KD Mn)



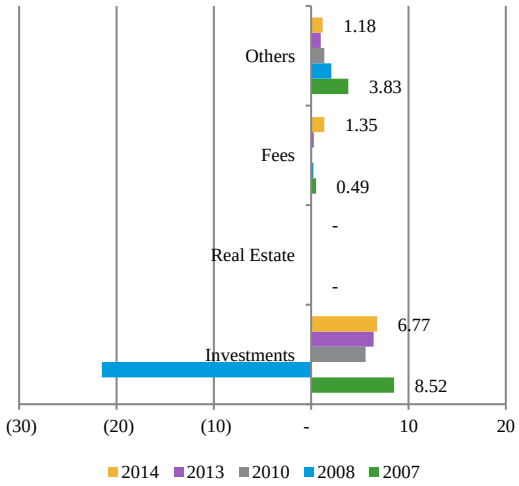
Capital Structure (KD Mn)



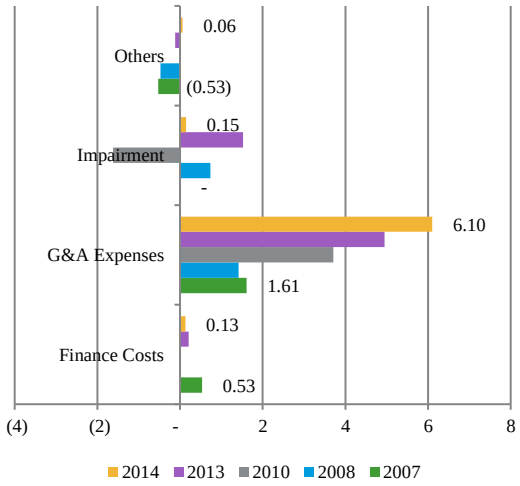
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



10. Company 10

Quick Facts	
Establishment Date	15th December 1974
Listing Date	14th November 1999
Number of Directors (Elected Directors)	7 (7)
Number of Subsidiaries	1
Number of Associates	1
Total Assets as at 31st December 2014	KD 22,717,340
Total Equity as at 31st December 2014	KD 22,076,686
Share Capital as at 31st December 2014	KD 19,648,284
Net Profit as at 31st December 2014	KD 3,726,427
Total Shares Traded in 2014 (Total Trades)	301.3 Mn Shares (8,643 Trades)
Outstanding Shares	196.5 Mn Shares
Total Share Turnover (x)	1.53
Free-Float Share Turnover (x)	2.59
Assets under Management in 2014 (in 2007)	KD 242.7 Mn (KD 626.0 Mn)

Balance Sheet Analysis:

Key highlights:

Low grade investments considering **consistent** negative returns.

i. Total Assets decreased from KD 70.6 Mn in FY 2007 to KD 22.7 Mn in FY 2014 mainly because of a decrease of "Investments at FV through Income Statement" & "Investments Available for Sale".
ii. In FY 2014, "PPE" decreased by KD 6.0 Mn due to disposal of a subsidiary to settle a debt.
iii. Huge investment section that is generating net losses. Possible impairment.
iv. Debt amounted to of KD 13.4 Mn in FY 2007 & increased to KD 24.5 Mn in FY 2008. Later the company started settling its debt. Further in FY 2014, agreed to settle down the remaining debt by selling shares of an associate, selling "Investments at FV through Income Statement" & paying the rest in cash.
v. "Share Capital" & "Reserves excluding FV & Translation Reserves" have been decreased in FY 2012 to reduce the "Accumulated Losses" by KD 33.6 Mn.

Income Statement Analysis:

Key Highlights:

Fee yield of 0.5%.

Major reduction in G&A expenses.

Finance cost is nil as it is debt free company.

Impact of net profit from disposal of discontinued operations.

i. Revenues declined from KD 12.8 Mn in FY 2007 to KD 0.5 Mn in FY 2014.
ii. The company's operational income comes from "Fees" & "Investments Income". Since FY 2010, the company's operational income came from "Fees" while "Investments" are witnessing losses. The company has been disposing subsidiaries in the past few years.
iii. The company's real net profit in FY 2013 would have been lower because they made a gain on sale of "PPE" while in FY 2014, net profit would have been negative if the company didn't sell its shares in a subsidiary to settle debt & gain on that transaction. (Debt swap)
iv. Major impairment witnessed in FY 2008 of KD 10.3 Mn.
v. Net Profit deteriorated from KD 9.0 Mn in FY 2007 to KD (6.3) Mn in FY 2008 & stood at KD 3.7 Mn in FY 2014. The company's revenues were less than the expenses, but accomplished a positive net profit only because the company sold its shares of a subsidiary to settle down debt.

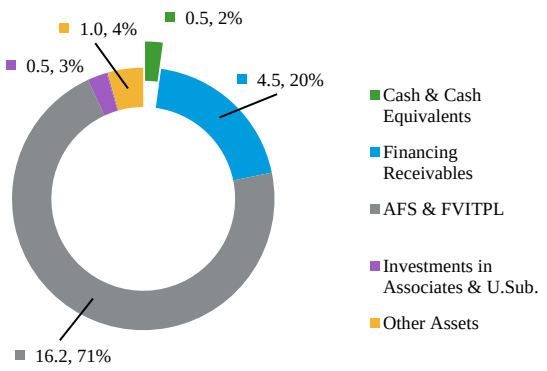
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	14.6%	(8.7%)	(15.4%)	3.1%	9.6%	TCI / AA
Return on Equity	16.9%	(16.2%)	(31.2%)	6.6%	14.5%	TCIS / AE
Solvency Ratios:						
Debt Ratio	18.9%	33.0%	50.0%	49.4%	0.0%	Debt / TA
Debt to Equity Ratio	23.8%	51.3%	108.4%	99.6%	0.0%	Debt / TE
Financial Leverage (x)	1.26	1.55	2.17	2.02	1.03	TA / TE
Interest Coverage (x)	24.38	(2.70)	(4.16)	1.32	-	EBIT / Int
CBK Ratios:						
Leverage Ratio	25.9%	55.5%	116.8%	101.5%	2.9%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	25.4%	21.3%	3.7%	10.3%	77.1%	Cash / TL
Should Exceed 10%	✓	✓	✗	✓	✓	

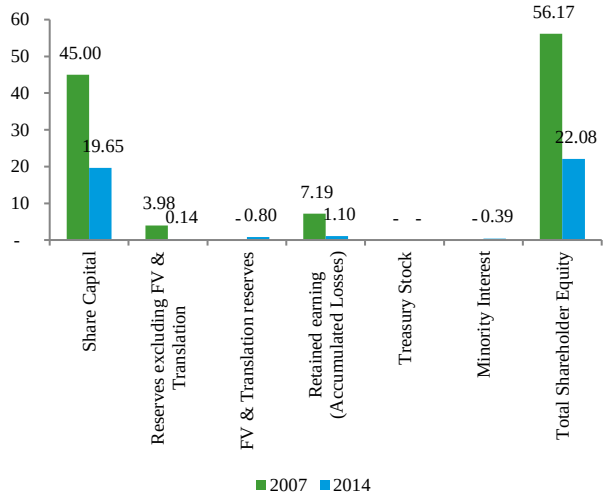
i. Profitability ratios have been declining over the years as net profit & total revenues have been declining & declined by 58.6% & 95.8% respectively in FY 2014 from FY 2007 levels. In FY 2013 & 2014, the profitability ratios were positive only because the company recognized profits from discontinued operations. **Company is expected to suffer losses, considering that discontinued operations have been exited in FY 2014 and the presence of low grade AFS & FVTPL investments**.
ii. Solvency ratios have exhibited improving trend till FY 2014. Debt Ratio & Debt to Equity Ratio were 0% as the company settled its debt.
iii. As per CBK's guidelines, leverage ratio should not exceed 200% & the company managed to have it below 200% over the years. On the other hand, the quick ratio should exceed 10% & the company managed to keep it above 10% other than in FY 2010 indicating the ample liquidity of the company.

Figure 10: Company 10 – Key Financial Data

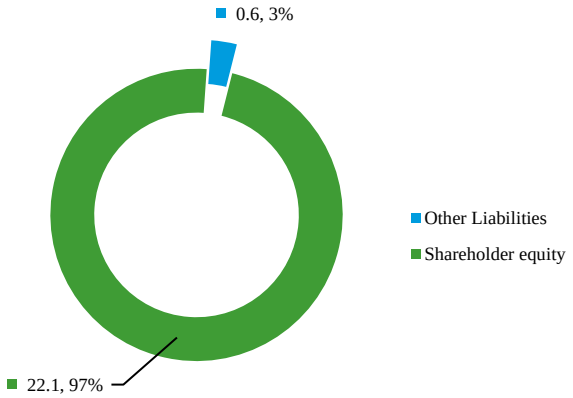
Asset Composition (KD Mn)



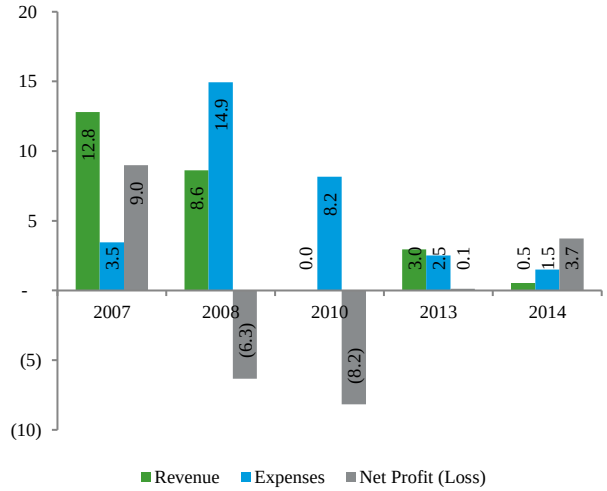
Equity Composition (KD Mn)



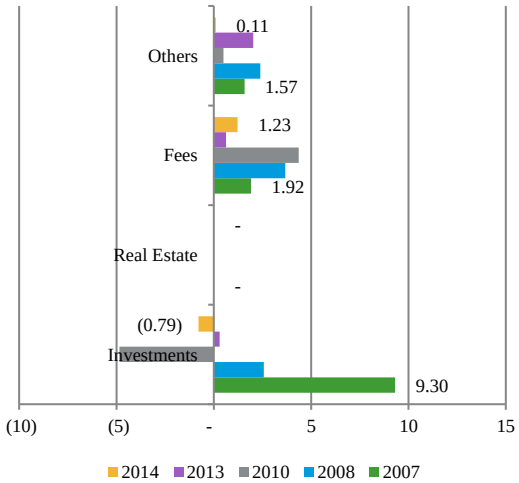
Capital Structure (KD Mn)



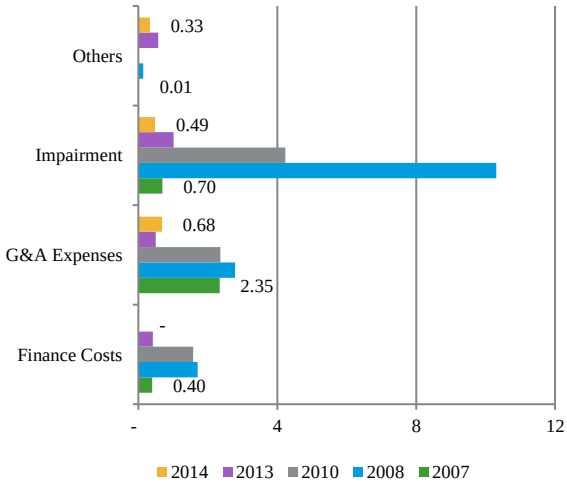
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



11. Company 11

Quick Facts	
Establishment Date	30th April 2005
Listing Date	19th April 2011
Number of Directors (Elected Directors)	9 (4)
Number of Subsidiaries	18
Number of Associates	10
Total Assets as at 31st December 2014	KD 307,596,284
Total Equity as at 31st December 2014	KD 216,506,578
Share Capital as at 31st December 2014	KD 113,361,735
Net Profit as at 31st December 2014	KD 6,782,464
Total Shares Traded in 2014 (Total Trades)	887.3 Mn Shares (16,725 Trades)
Outstanding Shares	1.1 Bn Shares
Total Share Turnover (x)	0.80
Free-Float Share Turnover (x)	1.24
Assets under Management in 2014 (in 2007)	KD 75.8 Mn (KD 138.4 Mn)

Balance Sheet Analysis:

Key highlights:

Share capital **with premium** increase pre-crisis.

i. Total Assets decreased from KD 508.2 Mn in FY 2007 to KD 307.6 Mn in FY 2014 mainly because of a decrease of "Investments" & "Investment in Associates", most due to sales of stake or impairments.
ii. Debt amounted to of KD 257.2 Mn in FY 2007 & was increased in FY 2008 to KD 360.7 Mn. In the subsequent years, the company started settling debt to reach KD 45.4 Mn in FY 2014. Debt settlement was achieved through asset sales.
iii. Shareholders' Equity increased from KD 112.4 Mn in FY 2007 to KD 216.5 Mn in FY 2014 mainly through routes such as cash, bonus share and ESOP in FY '08 & '09. Further cash shares and ESOP shares were issued at 50% premium.
iv. The company has been using "Reserves excluding FV & Translation" to write-off "Accumulated Losses" over the years.
v. Availability of cash & high quick ratio to pursue 'high return' investments.

Income Statement Analysis:

Fee yield of 1.64%

Real estate income in FY 2014 is mainly from either FV changes or gains from sale. In FY 2010, mainly from gains on sale.

Investments vastly reduced.

Other income includes KD 7.8 Mn which appears to be a one-time impact.

Key Highlights:

i. Revenues declined from KD 81.8 Mn in FY 2007 to KD 26.1 Mn in FY 2014.
ii. The company significantly reduced 'investments exposure' by selling its shares in some associates, subsidiaries and real estate. The company also significantly reduced "fee income" and "financing Income" over the years.
iii. Starting FY 2013, the company generated income from rentals which looks sustainable for the upcoming years. "Other Income" includes "Reversal of Staff Bonus Provision" which is not operating income to the company.
iv. Major impairment witnessed in FY 2010 & FY 2013 of KD 38.4 Mn & KD 39.9 Mn respectively.
v. Net Profit deteriorated from KD 33.2 Mn in FY 2007 to KD 6.8 Mn in FY 2014 as the company reduced asset size across multiple segments.

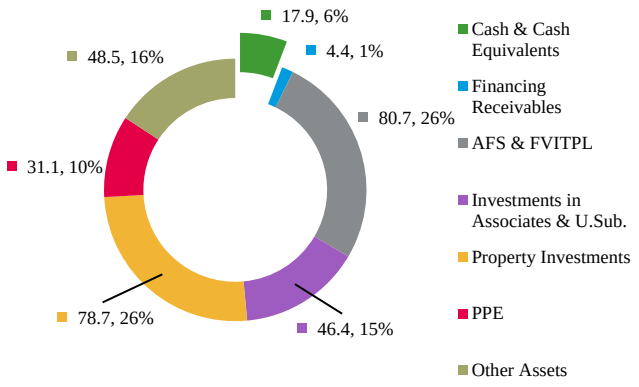
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	8.4%	5.0%	9.7%	(13.1%)	1.4%	TCI / AA
Return on Equity	41.6%	29.1%	24.0%	(21.5%)	2.2%	TCIS / AE
Solvency Ratios:						
Debt Ratio	54.2%	54.8%	29.1%	16.9%	14.8%	Debt / TA
Debt to Equity Ratio	245.0%	311.6%	46.0%	25.7%	21.0%	Debt / TE
Financial Leverage (x)	4.52	5.69	1.58	1.52	1.42	TA / TE
Interest Coverage (x)	2.54	1.83	3.20	(18.65)	4.03	EBIT / Int
CBK Ratios:						
Leverage Ratio	352.3%	468.8%	58.3%	52.1%	42.1%	TL / TE
Shouldn't Exceed 200%	✗	✗	✓	✓	✓	
Quick Ratio	3.6%	0.4%	15.2%	12.2%	19.6%	Cash / TL
Should Exceed 10%	✗	✗	✓	✓	✓	

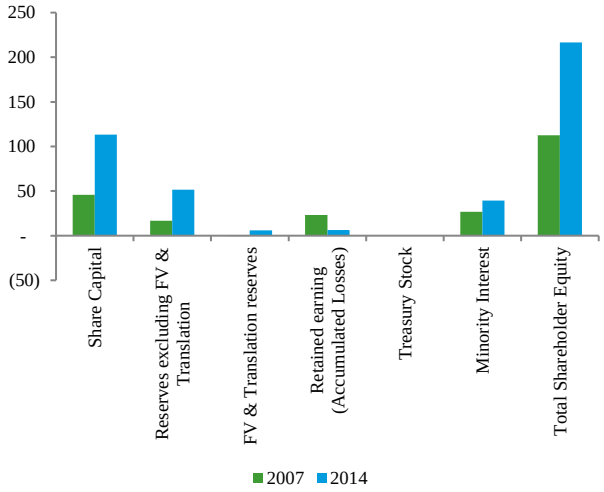
i. Profitability ratios have been declining over the years as net profit & total revenues have been declining & declined by 79.6% & 68.1% respectively in FY 2014 from FY 2007 levels.
ii. Return on equity declined dramatically as net profit has been declining & equity increasing over the years as the company raised its capital.
iii. Solvency ratios improved throughout the years as debt declined. Debt ratio & debt to equity ratio declined in return. Also, finance costs declined as debt was being settled which led to a better interest coverage ratio.
iv. As per CBK guidelines, leverage ratio should not exceed 200%. The company has significantly reduced exposure through both settlement of debt through asset sales as well as increasing the share capital. On the other hand, quick ratio should exceed 10% & the company managed to meet/exceed this criterion in the recent years.

Figure 11: Company 11 – Key Financial Data

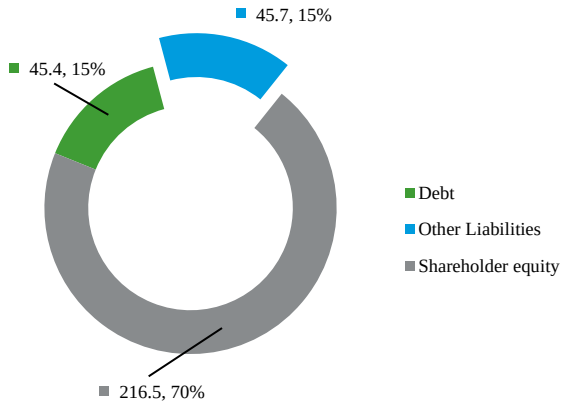
Asset Composition (KD Mn)



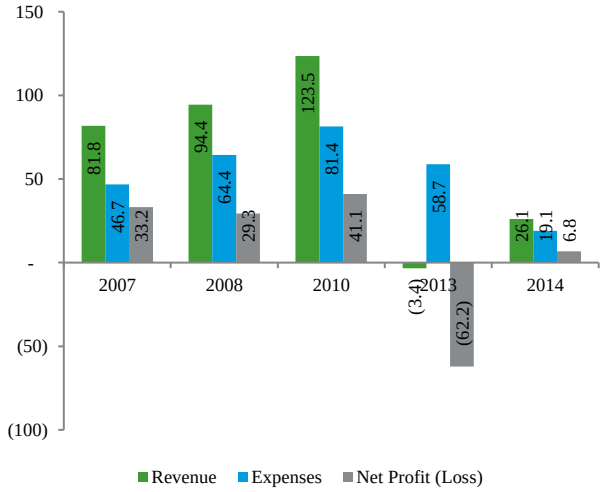
Equity Composition (KD Mn)



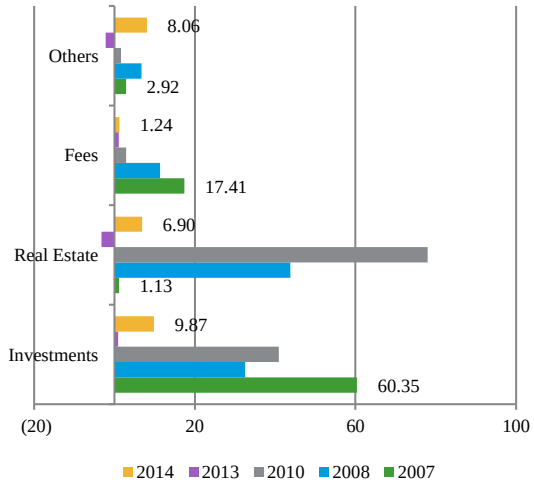
Capital Structure (KD Mn)



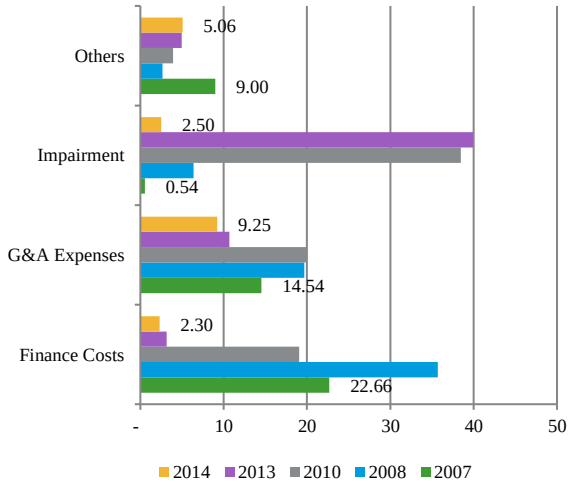
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



12. Company 12

Quick Facts	
Establishment Date	16th January 1977
Listing Date	29th September 1984
Number of Directors (Elected Directors)	7 (6)
Number of Subsidiaries	2
Number of Associates	2
Total Assets as at 31st December 2014	KD 300,997,000
Total Equity as at 31st December 2014	KD 169,729,000
Share Capital as at 31st December 2014	KD 53,676,000
Net Profit as at 31st December 2014	KD 10,898,000
Total Shares Traded in 2014 (Total Trades)	41.9 Mn Shares (1,527)
Outstanding Shares	514.3 Mn Shares
Total Share Turnover (x)	0.08
Free-Float Share Turnover (x)	0.10
Assets under Management in 2014 (in 2007)	N/A (N/A)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 381.7 Mn in FY 2007 to KD 301.0 Mn in FY 2014 mainly because of a decrease of "Financing Receivables" & "Investment Assets".
ii. Debt amounted to of KD 202.9 Mn in FY 2007 & was increased in FY 2008 to KD 230.5 Mn. In the subsequent years, the company started settling the debt to reach KD 121.4 Mn in FY 2014.
iii. In FY 2014, the company obtained a new loans amounting to KD 45.0 Mn & $60.0 Mn. Furthermore, the company paid four instalments regarding bonds.
iv. Shareholders' Equity remained fairly stable, although "Retained Earnings" decreased from KD 44.0 Mn in FY 2007 to KD 27.2 Mn in FY 2014.

Income Statement Analysis:

Key Highlights:

Other expenses include "Reversal Provision for Doubtful Debts".

i. Revenues declined from KD 52.5 Mn in FY 2007 to KD 19.0 Mn in FY 2014.
ii. The company generates income through "Financing Income" although profits diminished over the years. The company's "Investment Income" is minimal.
iii. Major impairment witnessed in FY 2008 of KD 1.6 Mn.
iv. Net Profit deteriorated from KD 36.5 Mn in FY 2007 to KD 15.2 Mn in FY 2008 & stood at KD 10.9 Mn in FY 2014.
v. "Retained Earnings" declined from KD 44.0 Mn in FY 2007 to KD 27.0 Mn in FY 2008 as the company paid dividends of KD 25.0 Mn, transferred KD 4.4 Mn to reserves & issued bonus shares of KD 2.6 Mn.

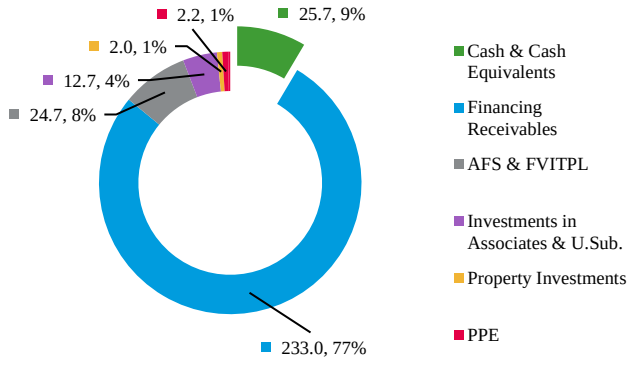
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	9.7%	3.5%	5.9%	4.1%	3.8%	TCI / AA
Return on Equity	23.6%	8.6%	11.7%	7.0%	6.5%	TCIS / AE
Solvency Ratios:						
Debt Ratio	53.2%	57.6%	42.2%	37.2%	40.3%	Debt / TA
Debt to Equity Ratio	123.5%	152.8%	77.6%	63.5%	71.5%	Debt / TE
Financial Leverage (x)	2.32	2.65	1.84	1.71	1.77	TA / TE
Interest Coverage (x)	3.70	2.46	4.13	4.74	4.23	EBIT / Int
CBK Ratios:						
Leverage Ratio	132.3%	165.2%	84.0%	70.6%	77.3%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	1.0%	9.9%	10.5%	20.6%	19.5%	Cash / TL
Should Exceed 10%	✗	✗	✓	✓	✓	

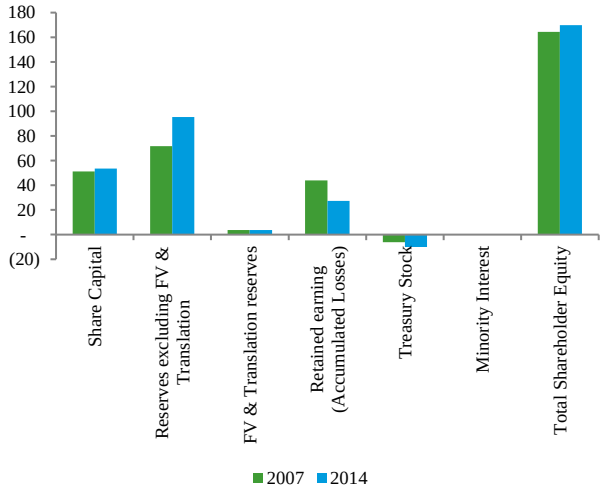
i. Profitability ratios have been outstanding over the years on account of net profit during the years.
ii. Solvency ratios have been stable over the years as the company was settling debt in one year & taking debt in another. Further, the company's profit is enough to cover the cost of the interest of the debt.
iii. As per CBK's principles, leverage ratio should not exceed 200%, & the company managed to keep it below 200% over the years indicating the healthy use of debt to finance its operations. On the other hand, quick ratio should exceed 10% & the company did manage to achieve it starting FY 2010, indicating the ability of the company to meet its obligations.

Figure 12: Company 12 – Key Financial Data

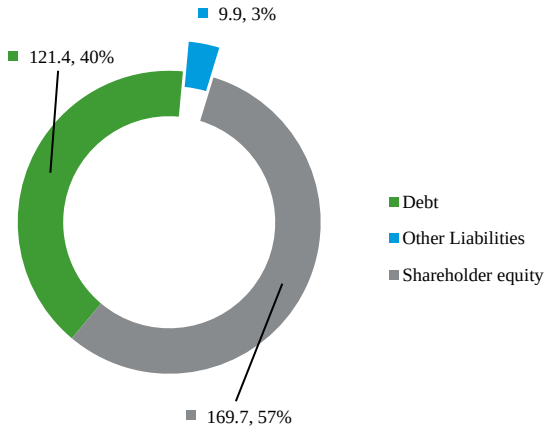
Asset Composition (KD Mn)



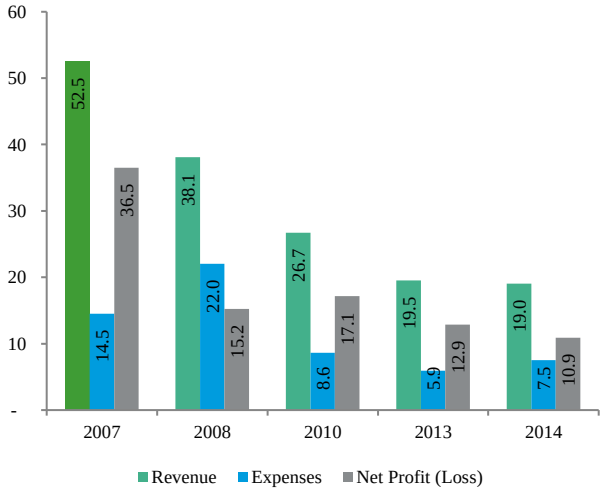
Equity Composition (KD Mn)



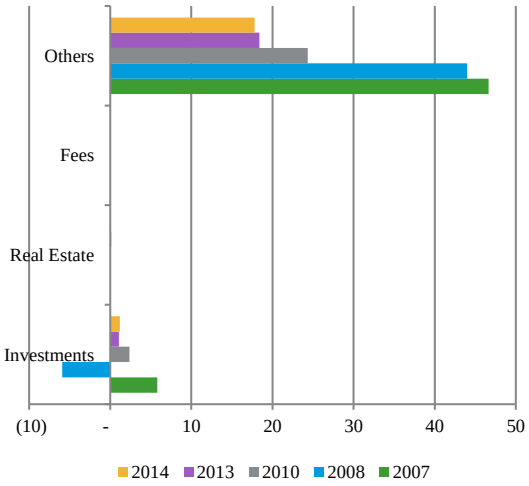
Capital Structure (KD Mn)



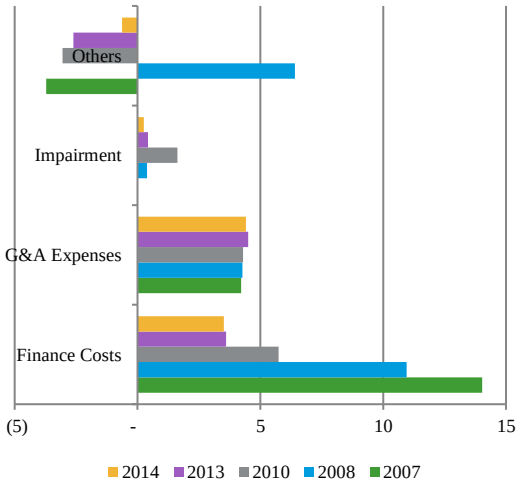
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



13. Company 13

Banks hold 40.1% of capital, as a result of Company 13'restructuring exercises.

Quick Facts	
Establishment Date	27th March 2000
Listing Date	28th July 2003
Number of Directors (Elected Directors)	8 (1)
Number of Subsidiaries	6
Number of Associates	4
Total Assets as at 31st December 2014	KD 64,445,701
Total Equity as at 31st December 2014	KD 40,404,821
Share Capital as at 31st December 2014	KD 30,713,465
Net Profit as at 31st December 2014	KD 1,524,652
Total Shares Traded in 2014 (Total Trades)	15.6 Mn Shares (1,112 Trades)
Outstanding Shares	294.1 Mn Shares
Total Share Turnover (x)	0.05
Free-Float Share Turnover (x)	0.31
Assets under Management in 2014 (in 2007)	KD 291.6 Mn (KD 782.8 Mn)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 223.5 Mn in FY 2007 to KD 64.4 Mn in FY 2014 mainly because of a decrease of "Investment Assets" & "Financing Receivables".
ii. Debt amounted to of KD 111.9 Mn in FY 2007 & was increased in FY 2008 to KD 154.2 Mn. In the subsequent years, the company started settling the debt to reach KD 20.6 Mn in FY 2014.
iii. In FY 2012, the company signed an agreement with its lenders to settle KD 65.0 Mn in debt & the rest to be settled over 5 years by increasing "Share Capital".
iv. Shareholders' Equity dropped from KD 106.6 Mn in FY 2007 to KD 40.4 Mn in FY 2014 mainly due to huge decrease of "Retained Earnings" from KD 29.6 Mn in FY 2007 to KD 6.2 Mn in FY 2014.
v. "Accumulated Losses" were written-off by KD 25.3 Mn in FY 2010 against "Share Capital" & "Reserves excluding FV & Translation". In FY 2012, "Accumulated Losses" were written off by KD 68.6 Mn through "Share Capital" after settling the debt agreement.

Income Statement Analysis:

Stability gaining traction post debt restructuring. Net profit in FY 2013 higher due to significant one time gain on investment exit.

Successful impairment write-down taken in FY 2010.

Key Highlights:

i. Revenues declined from KD 37.9 Mn in FY 2007 to KD 5.5 Mn in FY 2014.
ii. The company sustainable income comes from both "Fees Income", "Brokerage Commissions" & "Financing Income".
iii. In FY 2014, the company started making "Rental Income" but the income generated amounted to KD 0.07 Mn only.
iv. The company controlled its expenses over the years to reach its minimum in FY 2014.
v. Major impairment witnessed in FY 2008 & 2010 of KD 22.3 Mn & KD 34.1 Mn respectively.
vi. Net Profit deteriorated from KD 22.7 Mn in FY 2007 to KD (26.6) Mn in FY 2008 & stood at KD 1.5 Mn in FY 2014.

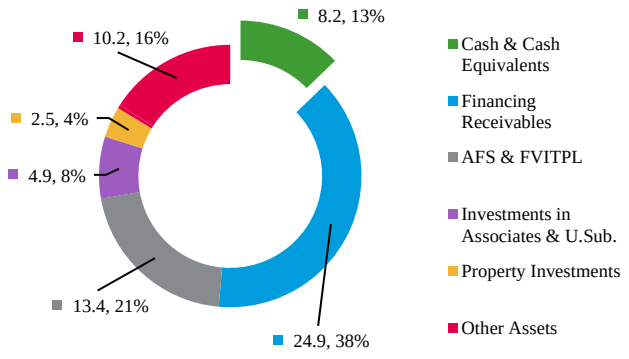
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	11.3%	(12.4%)	(45.2%)	4.7%	1.9%	TCI / AA
Return on Equity	28.4%	(46.8%)	682.8%	8.3%	3.8%	TCIS / AE
Solvency Ratios:						
Debt Ratio	50.1%	75.8%	129.5%	40.6%	32.0%	Debt / TA
Debt to Equity Ratio	105.0%	352.0%	(410.3%)	73.5%	51.0%	Debt / TE
Financial Leverage (x)	2.10	4.65	(3.17)	1.81	1.60	TA / TE
Interest Coverage (x)	3.60	(1.48)	(9.01)	5.22	3.23	EBIT / Int
CBK Ratios:						
Leverage Ratio	109.6%	364.6%	(417.0%)	81.0%	59.5%	TL / TE
Shouldn't Exceed 200%	✓	✗	✓	✓	✓	
Quick Ratio	4.7%	1.9%	7.6%	55.1%	34.3%	Cash / TL
Should Exceed 10%	✗	✗	✗	✓	✓	

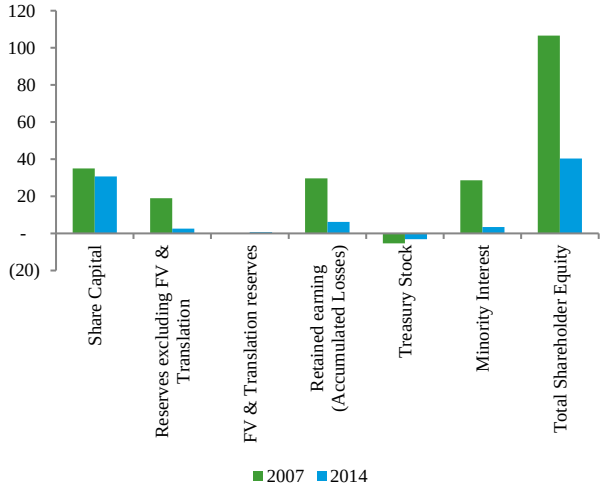
i. Liquidity has been no issue for the company since FY 2010 & it will be able to meet its short term obligations. In FY 2013 & 2014, the company's liquidity improved radically.
ii. Profitability ratios have been improved in the past two years as the company has been making profits. In FY 2014, net profit declined compared to FY 2013 which in return dropped the profitability ratios.
iii. Solvency ratios have been declining since FY 2010 as the company was settling its debt as it entered into a debt settlement agreement. Furthermore, in the last two years the company generate enough operating profit to cover its interest costs.
iv. As per CBK's principles, leverage ratio should not exceed 200%, & the company did manage to keep it below 200% over the years, other than in FY 2008, indicating the healthy use of debt to finance its operations. On the other hand, quick ratio should exceed 10% & the company did manage to achieve it in FY 2013 & 2014 indicating the ability of the company to meet its obligations.

Figure 13: Company 13 – Key Financial Data

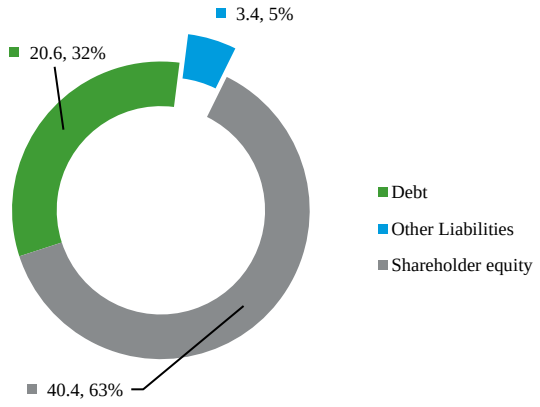
Asset Composition (KD Mn)



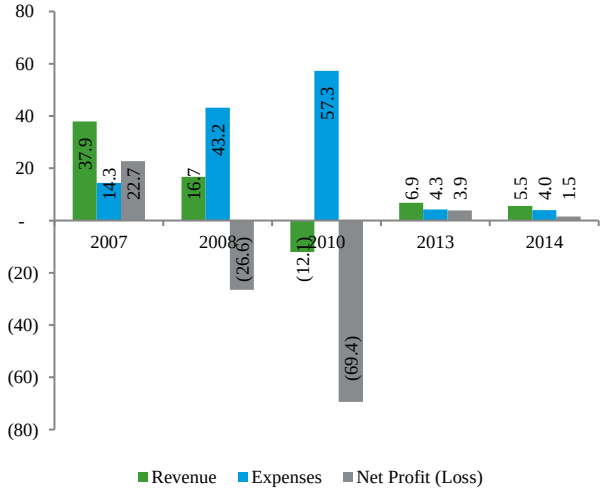
Equity Composition (KD Mn)



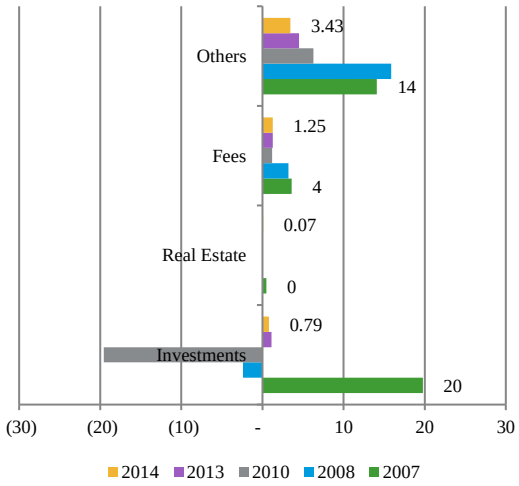
Capital Structure (KD Mn)



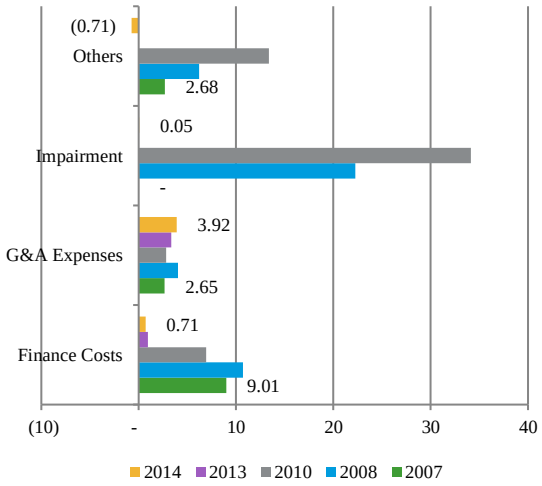
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



14. Company 14

Quick Facts	
Establishment Date	28th August 2006
Number of Directors (Elected Directors)	6 (N/A)
Number of Subsidiaries	1
Number of Associates	0
Total Assets as at 31st December 2014	KD 24,728,438
Total Equity as at 31st December 2014	KD 23,629,951
Share Capital as at 31st December 2014	KD 15,112,500
Net Profit as at 31st December 2014	KD 2,805,594
Assets under Management in 2014 (in 2007)	KD 191.9 Mn (N/A)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 25.2 Mn in FY 2013 to KD 24.7 Mn in FY 2014 mainly because of a decrease of "Investment Assets".
ii. Other assets mainly include accounts receivable.
iii. The company is debt free.
iv. Shareholders' Equity was stable between the years.

Income Statement Analysis:

Significantly high profits considering the low asset base.

High fee yield of 1%.

Major fall in investment income.

Relatively high G&A expenses considering lack of non-investment operations.

Key Highlights:

i. Revenues declined from KD 8.5 Mn in FY 2013 to KD 4.3 Mn in FY 2014.
ii. The sources of income for the company are "Fees Income" & "Investment Income".
iii. In FY 2013, the company recorded an impairment of KD 0.4 Mn.
iv. Net Profit deteriorated from KD 5.8 Mn in FY 2013 to KD 2.8 Mn in FY 2014.

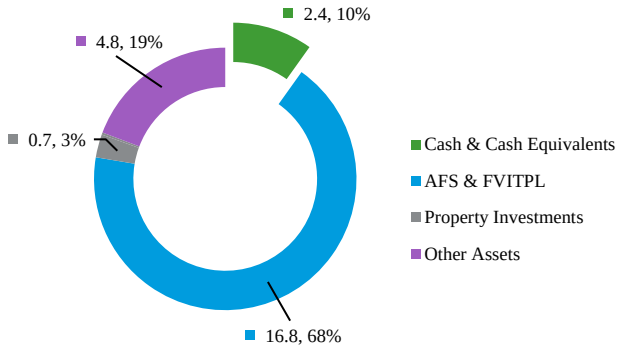
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	-	-	-	27.6%	11.7%	TCI / AA
Return on Equity	-	-	-	29.4%	12.3%	TCIS / AE
Solvency Ratios:						
Debt Ratio	-	-	-	0.0%	0.0%	Debt / TA
Debt to Equity Ratio	-	-	-	0.0%	0.0%	Debt / TE
Financial Leverage (x)	-	-	-	1.06	1.05	TA / TE
Interest Coverage (x)	-	-	-	78.31	509.66	EBIT / Int
CBK Ratios:						
Leverage Ratio	-	-	-	6.2%	4.6%	TL / TE
Shouldn't Exceed 200%	-	-	-	✓	✓	
Quick Ratio	-	-	-	152.2%	222.2%	Cash / TL
Should Exceed 10%	-	-	-	✓	✓	

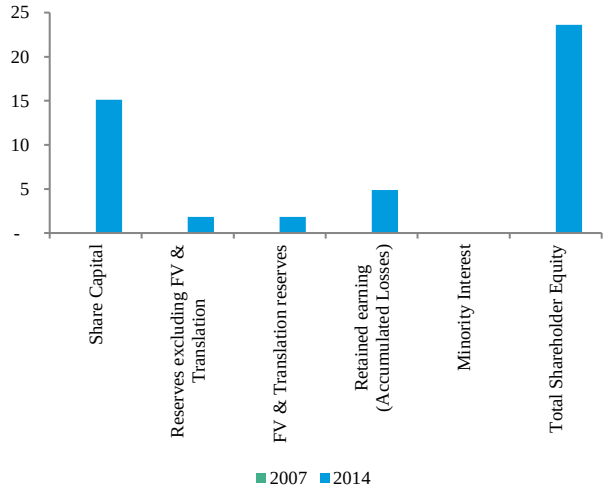
i. Liquidity has not been an issue for the company & the company will be able to meet its short term obligations.
ii. Profitability ratios have decreased slightly in FY 2014 as net profit decreased from KD 5.8 Mn in FY 2013 to KD 2.8 Mn in FY 2014.
iii. Solvency ratios have been 0% as the company is debt free.
iv. As per CBK's principles, leverage ratio should not exceed 200%, & the company managed to keep it below 200% over the years as the company is debt free so it is dependent on its equity to finance its operations. On the other hand, quick ratio should exceed 10% & the company managed to achieve it over the years indicating the ability of the company to meet its obligations.

Figure 14: Company 14 – Key Financial Data

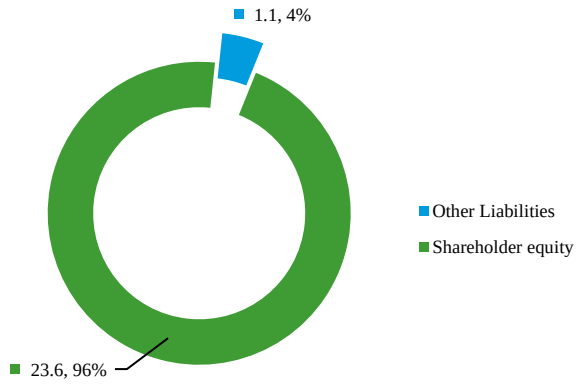
Asset Composition (KD Mn)



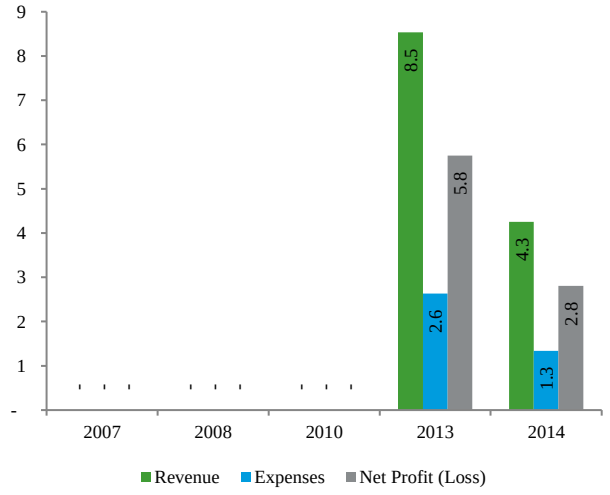
Equity Composition (KD Mn)



Capital Structure (KD Mn)

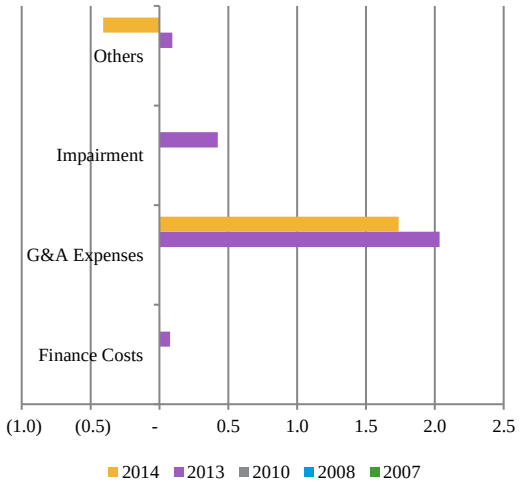


Financial Performance (KD Mn)



Revenue Composition (KD Mn)

Expenses Composition (KD Mn)



15. Company 15

Quick Facts	
Establishment Date	17th March 1998
Listing Date	12th March 2008
Number of Directors (Elected Directors)	7 (2)
Number of Subsidiaries	4
Number of Associates	1
Total Assets as at 31st December 2014	KD 34,294,987
Total Equity as at 31st December 2014	KD 33,845,383
Share Capital as at 31st December 2014	KD 30,000,000
Net Profit as at 31st December 2014	KD 1,123,931
Total Shares Traded in 2014 (Total Trades)	0.3 Mn Shars (57 Trades)
Outstanding Shares	300.0 Mn Shares
Total Share Turnover (x)	0.001
Free-Float Share Turnover (x)	0.002
Assets under Management in 2014 (in 2007)	KD 28.1 Mn (KD 97.0 Mn)

Balance Sheet Analysis:

Key highlights:

i. Total Assets increased from KD 29.2 Mn in FY 2007 to KD 34.3 Mn in FY 2014 mainly because of an increase of "Investment in Associates".
ii. In FY 2013, the company acquired 22.64% stake of Kuwait Financial Centre & was classified as an associate.
iii. Debt amounted to of KD 8.6 Mn in FY 2007 & was increased in FY 2008 to KD 9.3 Mn. In the subsequent years, the company started settling the debt & has no debt in FY 2014.
iv. In FY 2011, the company settled all its debt through debt settlement agreement & legal lawsuits were waivered. In FY 2013, the company took debt from a local bank for one year of KD 3.0 Mn which was settled in FY 2014.
v. Shareholders' Equity increased from KD 20.3 Mn in FY 2007 to KD 33.8 Mn in FY 2014 mainly due to an increase of "Share Capital".
vi. In FY 2013, the company increased the "Share Capital" by 15.0 Mn for the purpose of acquiring the associate.

Income Statement Analysis:

Key Highlights:

i. Revenues declined from KD 2.8 Mn in FY 2007 to KD (7.5) Mn in FY 2008. In FY 2014, revenues recovered back to KD 2.7 Mn.
ii. The company's main source of income is "Investment Income" which consists of 73.5% of net revenues in FY 2014. Further, the company generates income through "Fees Income" as well but it's marginal.
iii. The company should control its expenses as they have been on an inclining trend over the years.
iv. Major impairment witnessed in FY 2008 of KD 0.9 Mn.
v. Net Profit deteriorated from KD 1.4 Mn in FY 2007 to KD (10.4) Mn in FY 2008 & stood at KD 1.1 Mn in FY 2014.

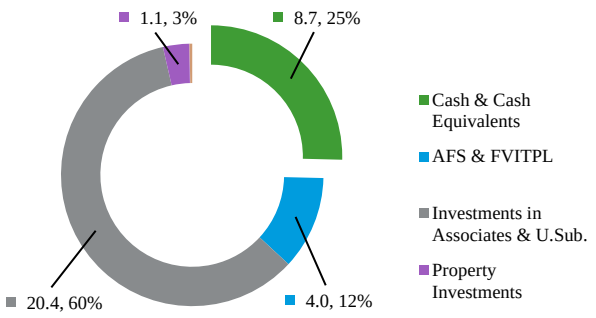
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	5.2%	(44.4%)	6.7%	13.6%	5.5%	TCI / AA
Return on Equity	7.3%	(72.4%)	11.4%	14.7%	5.9%	TCIS / AE
Solvency Ratios:						
Debt Ratio	29.4%	48.4%	27.2%	8.5%	0.0%	Debt / TA
Debt to Equity Ratio	42.4%	98.5%	40.6%	9.4%	0.0%	Debt / TE
Financial Leverage (x)	1.44	2.04	1.49	1.11	1.01	TA / TE
Interest Coverage (x)	5.53	(11.71)	0.31	297.53	55.59	EBIT / Int
CBK Ratios:						
Leverage Ratio	44.2%	103.5%	49.0%	10.8%	1.3%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	11.3%	40.2%	187.0%	263.4%	1934.4%	Cash / TL
Should Exceed 10%	✓	✓	✓	✓	✓	

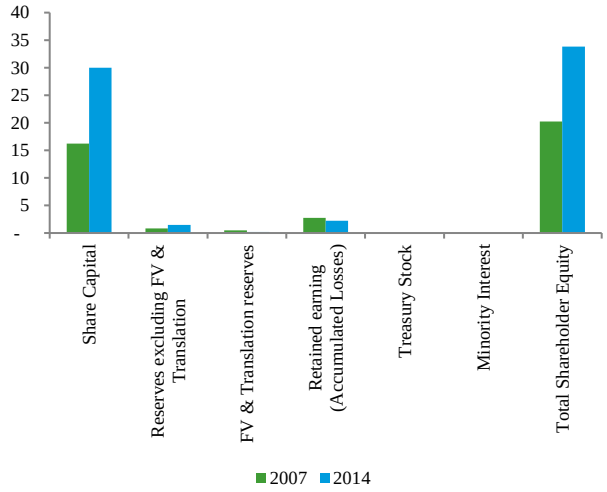
i. Liquidity has never been an issue for the company as it always had enough resources to meet its short term obligations. Currently, the company's current ratio stood at 19.3 as the company settled all of its debt.
ii. Profitability ratios have been declining till FY 2010 as the company was facing losses. Henceforth the company was back on track with profits but they have been unstable.
iii. Solvency ratios have been on a declining trend since FY 2008 till FY 2011 where the company paid up all its debt. In FY 2013, the company took a debt which it settled it in the next year. The company has no debt currently. The interest coverage in FY 2014 is not nil as the debt taken in FY 2013 was matured on May 2014.
iv. As per CBK's principles, leverage ratio should not exceed 200% & the company managed to keep it below 200%, under 100% actually, indicating the dependence of the company on equity to finance its operations. On the other hand, the quick ratio should exceed 10% & the company managed to keep it over 10% over the years indicating the company's ability to meet its obligations.

Figure 15: Company 15 – Key Financial Data

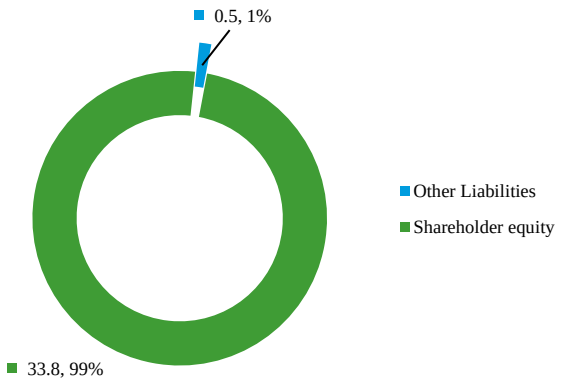
Asset Composition (KD Mn)



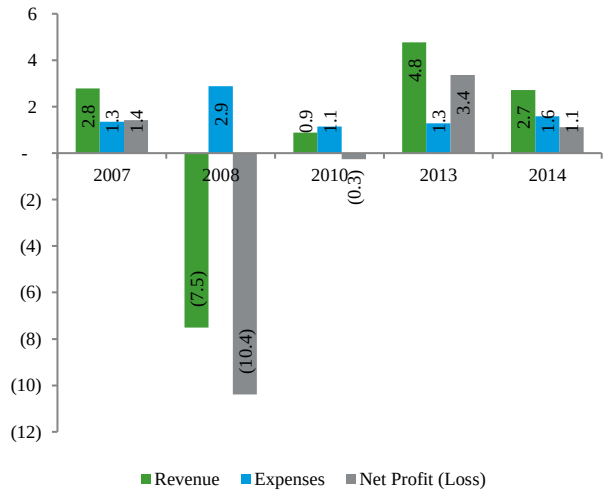
Equity Composition (KD Mn)



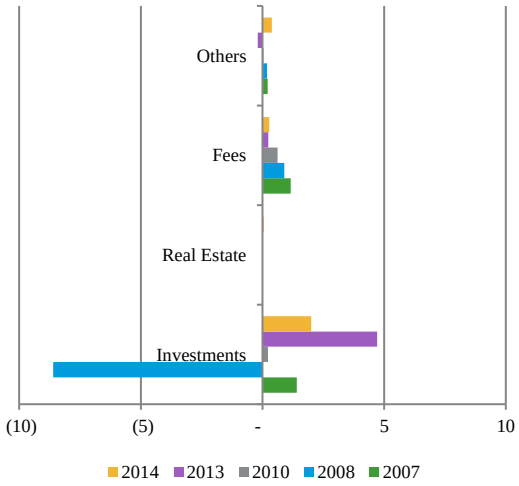
Capital Structure (KD Mn)



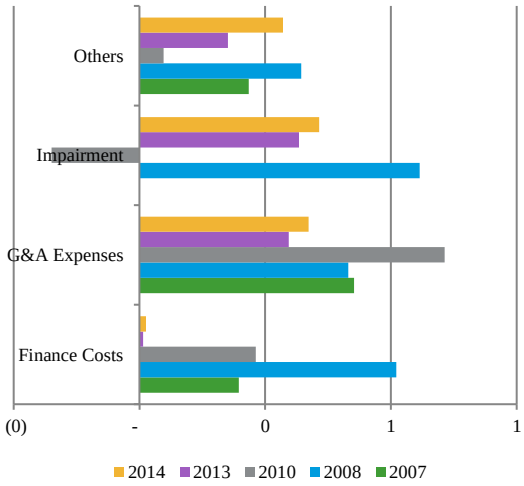
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



16. Company 16

Quick Facts	
Establishment Date	6th May 1996
Listing Date	5th January 2006
Number of Directors (Elected Directors)	6 (1)
Number of Subsidiaries	7
Number of Associates	3
Total Assets as at 31st December 2014	KD 200,572,966
Total Equity as at 31st December 2014	KD 63,679,201
Share Capital as at 31st December 2014	KD 41,316,276
Net Profit as at 31st December 2014	KD 51,793
Total Shares Traded in 2014 (Total Trades)	236.1 Mn Shares (6,801 Trades)
Outstanding Shares	402.8 Mn Shares
Total Share Turnover (x)	0.59
Free-Float Share Turnover (x)	1.18
Assets under Management in 2014 (in 2007)	KD 53.9 Mn (KD 300.9 Mn)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 336.1 Mn in FY 2007 to KD 200.6 Mn in FY 2014 mainly because of a decrease of "Investment Assets".
ii. Debt amounted to of KD 138.9 Mn in FY 2007 & stood at KD 126.4 Mn in FY 2014 as the company did not sufficiently settle its debt.
iii. During FY 2011 & 2012, the company restructured its debt of KD 114.7 Mn & was converted to long-term debt. As per the agreement, these loans are required to be 100% secured which was not completely done. In FY 2014, is in the process to reschedule its debt & asked the lenders for standstill agreements 30 June 2015 to negotiate an agreement & the lenders agreed.
iv. Shareholders' Equity dropped from KD 185.6 Mn in FY 2007 to KD 63.7 Mn in FY 2014 mainly due to huge decrease of "Retained Earnings" from KD 58.1 Mn in FY 2007 to KD 4.5 Mn in FY 2014.
v. In FY 2012, "Accumulated Losses" were written-off by KD 37.5 Mn against "Share Capital'" for the same amount.

Income Statement Analysis:

Key Highlights:

i. Revenues declined from KD 65.1 Mn in FY 2007 to KD 20.0 Mn in FY 2014.
ii. The company's main source of income is "Investment Income" mainly from "Share of results from Associates".
iii. The company generates income also from "Financing Income", "Fees Income", "Rental Income" & "Hotel Operations & IT Services Income" which are at a lower level compared to the "Investment Income".
iv. Major impairment witnessed in FY 2008 of KD 105.1 Mn. Furthermore, the company has been recording impairments every year since FY 2008.
v. Net Profit deteriorated from KD 45.4 Mn in FY 2007 to KD (129.1) Mn in FY 2008 & stood at KD 0.1 Mn in FY 2014.
vi. The company is diversified & has been generating decent revenues in the past two years but the reason behind the marginal net profit is the recognizing of impairments.

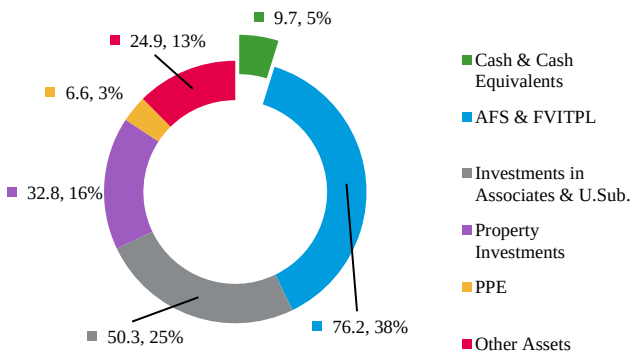
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	18.0%	(39.7%)	(10.5%)	2.1%	1.6%	TCI / AA
Return on Equity	39.0%	(93.7%)	(41.5%)	8.5%	8.9%	TCIS / AE
Solvency Ratios:						
Debt Ratio	41.3%	59.7%	60.1%	65.3%	63.0%	Debt / TA
Debt to Equity Ratio	74.8%	153.5%	157.8%	208.4%	198.6%	Debt / TE
Financial Leverage (x)	1.81	2.57	2.63	3.19	3.15	TA / TE
Interest Coverage (x)	6.08	(8.44)	(2.39)	2.64	1.02	EBIT / Int
CBK Ratios:						
Leverage Ratio	81.1%	157.3%	162.7%	219.1%	215.0%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✗	✗	
Quick Ratio	7.0%	15.9%	9.9%	5.8%	7.1%	Cash / TL
Should Exceed 10%	✗	✓	✗	✗	✗	

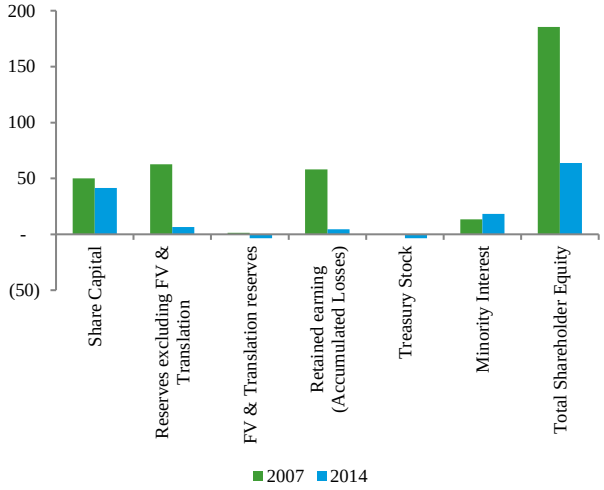
i. Liquidity has improved throughout in FY 2014 & the company has adequate resources to meet its short term obligations.
ii. Profitability ratios have been declining till FY 2010. Starting FY 2012, profitability ratios have been positive & on an inclining trend until FY 2014 where the company barely made profits. The company has decent revenues since FY 2012 but the recognizing of impairments over the years has been the issue.
iii. Solvency ratios have been stable over the years as the company did not settle its debt & is in negotiations to restructure the debt.
iv. As per CBK's principles, leverage ratio should not exceed 200%, but the company did not manage to do so starting FY 2013 as the company decreased its share capital to write-off accumulated losses. On the other hand, quick ratio should exceed 10% & the company did not manage to achieve it in the past few years indicating the disability of the company to meet its obligations.

Figure 16: Company 16 – Key Financial Data

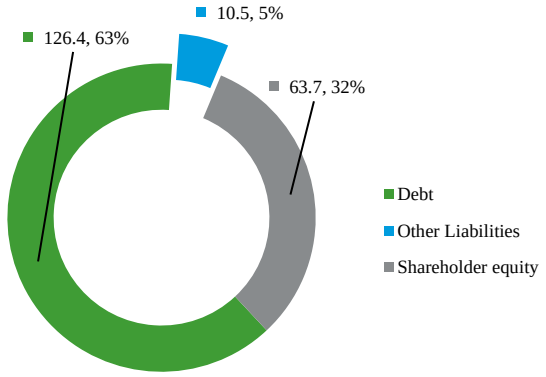
Asset Composition (KD Mn)



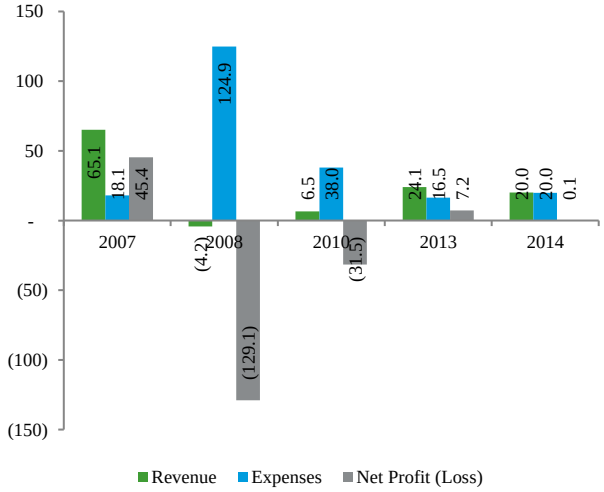
Equity Composition (KD Mn)



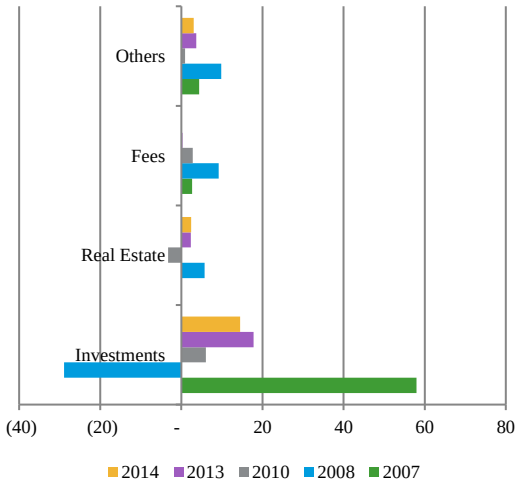
Capital Structure (KD Mn)



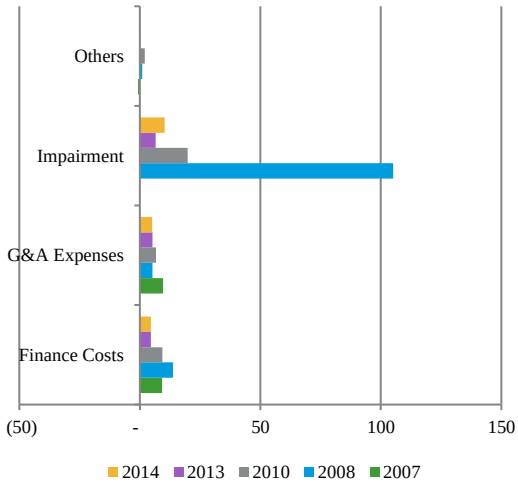
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



17. Company 17

Quick Facts	
Establishment Date	31st January 1974
Listing Date	9th September 1987
Number of Directors (Elected Directors)	5 (5)
Number of Subsidiaries	6
Number of Associates	3
Total Assets as at 31st December 2014	KD 478,679,350
Total Equity as at 31st December 2014	KD 81,785,018
Share Capital as at 31st December 2014	KD 72,000,000
Net Profit as at 31st December 2014	KD (47,365,874)
Total Shares Traded in 2014 (Total Trades)	1.5 Bn Shares (29,739 Trades)
Outstanding Shares	672.9 Mn Shares
Total Share Turnover (x)	2.29
Free-Float Share Turnover (x)	4.24
Assets under Management in 2014 (in 2007)	KD 52.1 Mn (KD 103.0 Mn)

Balance Sheet Analysis:

Key highlights:

Over KD 200 Mn in equity value wiped off.

Over leveraged.

i. Total Assets decreased from KD 587.6 Mn in FY 2007 to KD 478.7 Mn in FY 2014 mainly because of a decrease of "Investment Assets".
ii. Debt amounted to of KD 135.6 Mn in FY 2007 & increased to KD 175.4 Mn in FY 2014.
iii. The company has 9 loans for different purposes & the earliest one to mature is in FY 2016 with an amount of KD 3.0 Mn. The highest loan of KD 80.0 Mn will be maturing on 30th June 2018.
iv. Shareholders' Equity dropped from KD 289.0 Mn in FY 2007 to KD 81.8 Mn in FY 2014 mainly due to huge decrease of "Retained Earnings" from KD 159.7 Mn in FY 2007 to KD (65.5) Mn in FY 2014.
v. "Share Capital" increased from KD 45.0 Mn in FY 2007 to KD 72.0 Mn in FY 2008 as bonus shares of 60% of the paid up share capital for the FY 2007 which were approved at the annual general meeting on 29th April 2008.

Income Statement Analysis:

Real estate income: Loss on settlement (KD 15.5 Mn) of disputes related to IP in FY 14. FY 13 witnessed significant FV gain (KD 38 Mn) on IP.

Debt restructuring efforts required.

Other income increased as a result of improved hotel operations.

Key Highlights:

i. Revenues declined from KD 122.0 Mn in FY 2007 to KD 17.1 Mn in FY 2014.
ii. The company's main source of income is "Hotels Income & Related Services". The remaining sources of income are minimal except IP returns which took a hit because of dispute settlement.
iii. The vast "Real Estate Income" in FY 2007, 2008 & 2013 are from gains of selling "Properties under Development" & "Changes in FV of Investment Properties".
iv. Major impairment witnessed in FY 2008 & 2014 of KD 60.5 Mn & KD 28.9 Mn respectively.
v. Net Profit deteriorated from KD 95.3 Mn in FY 2007 to KD (72.6) Mn in FY 2008 & stood at KD (47.4) Mn in FY 2014.
vi. The company should manage its expenses more efficiently.

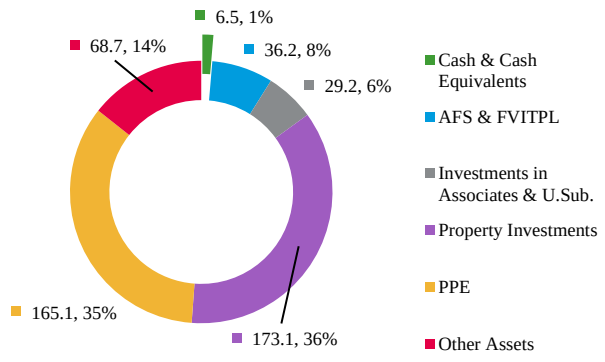
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	18.9%	(13.7%)	(5.4%)	1.6%	(8.7%)	TCI / AA
Return on Equity	37.9%	(43.1 %)	(17.3%)	2.6%	(41.0%)	TCIS / AE
Solvency Ratios:						
Debt Ratio	23.1%	28.5%	31.2%	32.1%	36.6%	Debt / TA
Debt to Equity Ratio	46.9%	84.1%	127.4%	131.1%	214.4%	Debt / TE
Financial Leverage (x)	2.03	2.95	4.08	4.08	5.85	TA / TE
Interest Coverage (x)	12.24	(5.69)	(1.40)	2.02	(3.07)	EBIT / Int
CBK Ratios:						
Leverage Ratio	103.4%	194.8%	308.4%	307.8%	485.3%	TL / TE
Shouldn't Exceed 200%	✓	✓	×	×	×	
Quick Ratio	24.7%	15.1%	5.2%	1.7%	1.6%	Cash / TL
Should Exceed 10%	✓	✓	×	×	×	

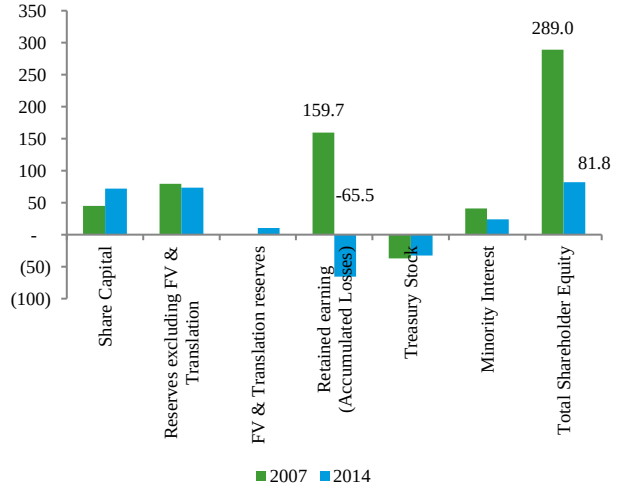
i. Liquidity has been an issue for the company since FY 2010 & the company won't be able to meet its short term obligations.
ii. Profitability ratios have been negative since FY 2008 as the company was making losses over those years. In FY 2013, the company's profitability improved but in FY 2014, it witnessed a loss. The main reason for the losses is the company's higher expenses than the generating revenues. The company should manage its expenses in the upcoming years.
iii. Solvency ratios have been stable over the years as the company was settling debt in one year & taking debt in another. Furthermore, the company is not making enough operating profits to cover its interest costs.
iv. **As per CBK's guidelines, leverage ratio should not exceed 200%, & the company did not manage to keep it below 200% in FY 2010, 2013 & 2014 indicating the high dependence on debt to finance its operations. On the other hand, quick ratio should exceed 10% & the company did not manage to achieve it in FY 2010, 2013 & 2014 indicating the disability of the company to meet its obligations.**

Figure 17: Company 17 – Key Financial Data

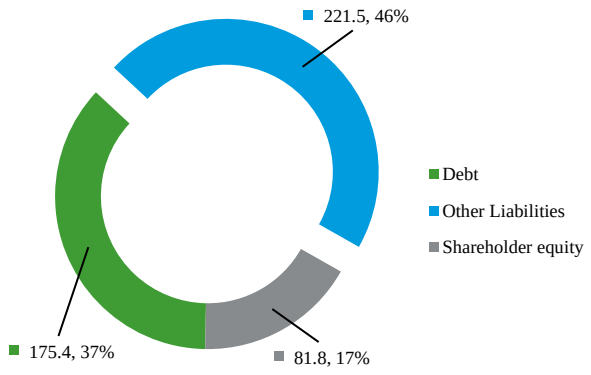
Asset Composition (KD Mn)



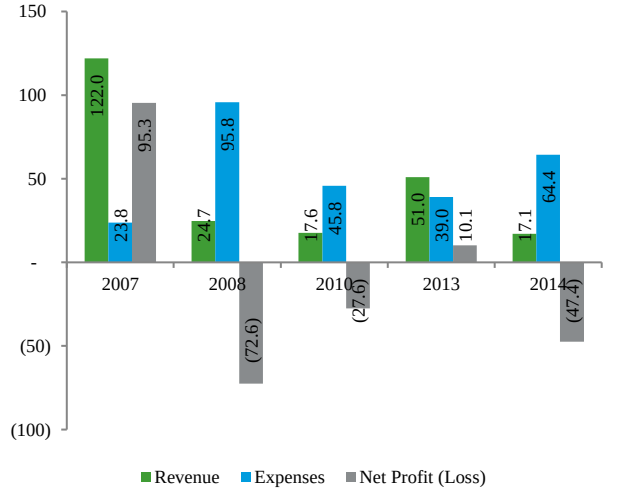
Equity Composition (KD Mn)



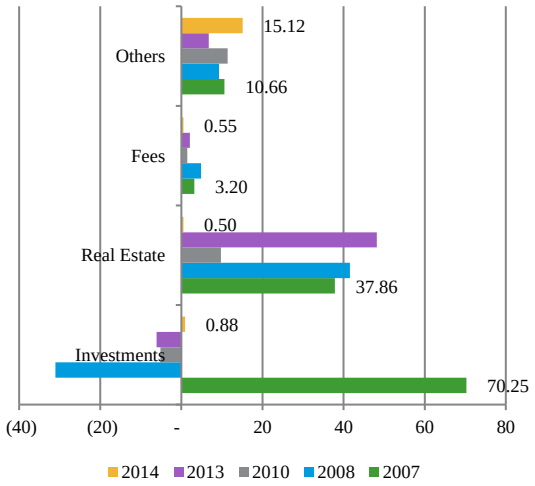
Capital Structure (KD Mn)



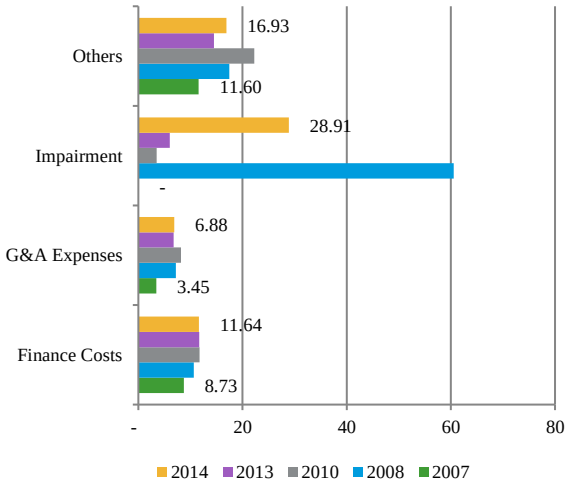
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



18. Company 18

Banks hold 32.1% of capital, while a KD money market fund (under liquidation) holds 6.7%, as a result of Company 18's exercises.

Quick Facts	
Establishment Date	4th January 1999
Listing Date	29th June 2002
Number of Directors (Elected Directors)	8 (1)
Number of Subsidiaries	8
Number of Associates	18
Total Assets as at 31st December 2014	KD 355,155,922
Total Equity as at 31st December 2014	KD 116,983,473
Share Capital as at 31st December 2014	KD 81,403,882
Net Profit as at 31st December 2014	KD 12,910,921
Total Shares Traded in 2014 (Total Trades)	659.8 Mn Shares (13,815 Trades)
Outstanding Shares	801.7 Mn Shares
Total Share Turnover (x)	0.82
Free-Float Share Turnover (x)	1.47
Assets under Management in 2014 (in 2007)	N/A (N/A)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 557.6 Mn in FY 2007 to KD 355.2 Mn in FY 2014 mainly because of a decrease of "Financing Receivables" & "Other Assets".
ii. Debt amounted to KD 401.3 Mn in FY 2007 & was increased in FY 2008 to KD 416.1 Mn. In the subsequent years, the company started settling debt to reach KD 201.6 Mn in FY 2014.
iii. Since FY 2012, the company has entered into debt settlement agreements with lenders, to settle its debt through debt to asset swap and debt equity swaps.
iv. Shareholders' Equity dropped from KD 126.4 Mn in FY 2007 to KD 117.0 Mn in FY 2014, mainly due to huge decrease of "Retained Earnings" from KD 28.7 Mn in FY 2007 to KD (11.9) Mn in FY 2014 as well as reserves (declined by KD 35 Mn). Equity was propped up by 2 capital increases totalling KD 47.2 Mn (FY '12 & FY '13) mainly through a debt equity swap.
v. In FY 2010, "Accumulated Losses" were written-off by KD 67.5 Mn against "Reserves excluding FV & Translation" and capital.

Income Statement Analysis:

Other income in FY 2013 includes KD 24.7 Mn restructuring gain.

Business model change away from investments.

Major reduction in G&A expenses.

Decrease in finance costs due to restructuring of debt.

Key Highlights:

i. Revenues declined from KD 92.7 Mn in FY 2007 to KD 51.0 Mn in FY 2014.
ii. The company moved away from "Investment Income" & "Financing Income" through the years as "Investment Income" decreased from KD 23.9 Mn in FY 2007 to KD 3.7 Mn in FY 2014 & "Financing Income" decreased from KD 17.1 Mn in FY 2007 to KD 3.8 Mn in FY 2014.
iii. The focus of the company is on both "Operating Lease Rental Income" which is leasing of motor vehicles & "Real Estate Income" which includes sale of trading properties, sale of construction material, gain on sale of investment properties & rental income.
iv. Major impairments were witnessed in FY 2008 & FY 2013 of KD 14.7 Mn & KD 14.8 Mn respectively.
v. Net Profit deteriorated from KD 26.0 Mn in FY 2007 to KD (22.7) Mn in FY 2010 & improved to reach KD 12.9 Mn in FY 2014.
vi. Expenses of KD 4.7 Mn over the last 5 years for advisory & consulting fees.

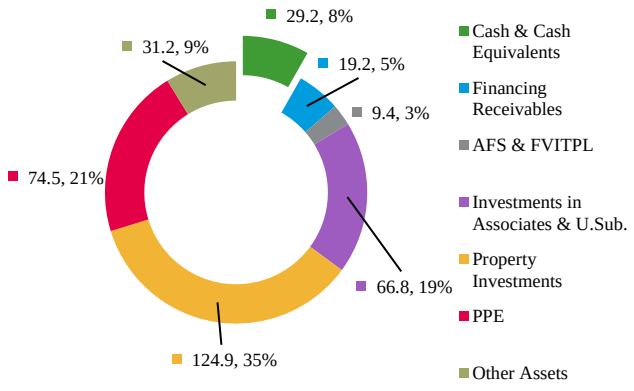
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	5.0%	0.8%	(4.6%)	5.3%	4.4%	TCI / AA
Return on Equity	24.1%	0.1%	(124.3%)	45.8%	18.6%	TCI / AE
Solvency Ratios:						
Debt Ratio	72.0%	69.4%	83.1%	61.5%	56.8%	Debt / TA
Debt to Equity Ratio	317.5%	279.0%	745.2%	200.9%	172.3%	Debt / TE
Financial Leverage (x)	4.41	4.02	8.97	3.27	3.04	TA / TE
Interest Coverage (x)	1.87	1.15	(0.05)	3.01	2.81	EBIT / Int
CBK Ratios:						
Leverage Ratio	341.1%	302.1%	796.9%	226.8%	203.6%	TL / TE
Shouldn't Exceed 200%	✗	✗	✗	✗	✗	
Quick Ratio	6.1%	4.2%	10.9%	9.5%	12.3%	Cash / TL
Should Exceed 10%	✗	✗	✓	✗	✓	

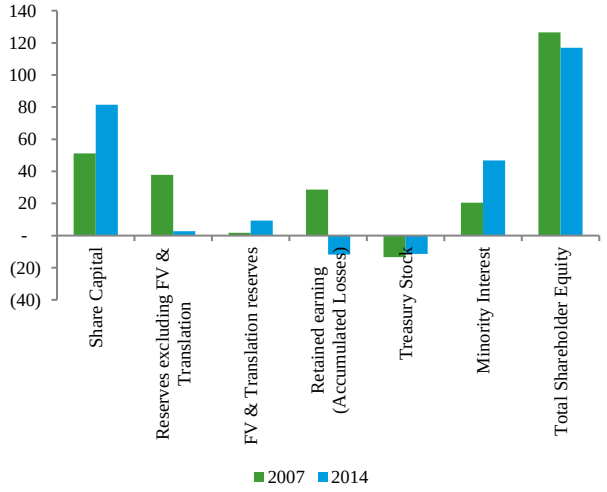
i. Profitability ratios have witnessed a decline in FY 2010 but improved radically since. The reason behind the high ROE ratio in FY 2013 is due to the average equity being lower that the year-end equity. Equity in FY 2012 was KD 24.8 Mn while in FY 2013 it was increased to KD 58.0 Mn, as a result of the debt settlement agreement.
ii. Solvency ratios improved throughout the years as debt declined. Debt ratio & debt to equity ratio declined in return. Also, finance costs declined as debt was restructured & settled, which led to a better interest coverage ratio.
As per CBK guidelines, leverage ratio should not exceed 200%, but the company exceeded 200% throughout though declining, indicating the high dependence of the company on debt to finance its operations. On the other hand, quick ratio should exceed 10% & the company managed to fulfill that in FY 2014 indicating the ability to meet its obligations.

Figure 18: Company 18 – Key Financial Data

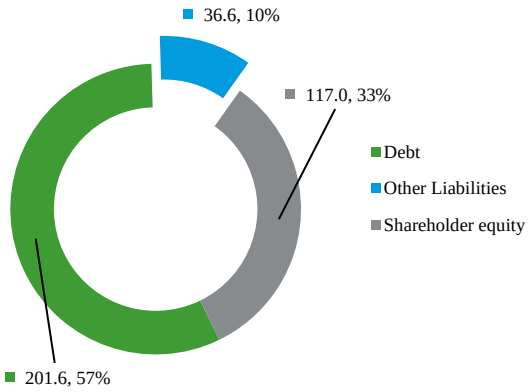
Asset Composition (KD Mn)



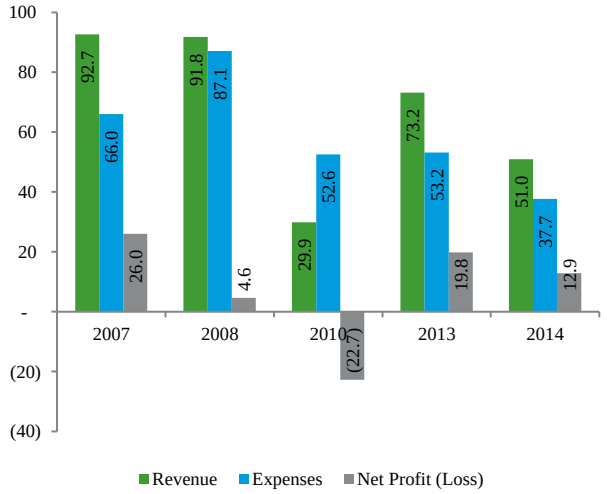
Equity Composition (KD Mn)



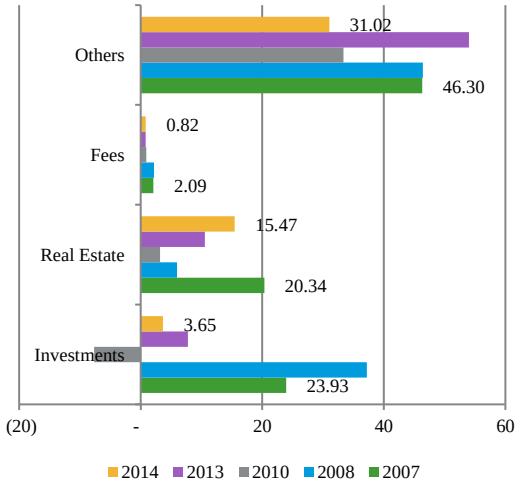
Capital Structure (KD Mn)



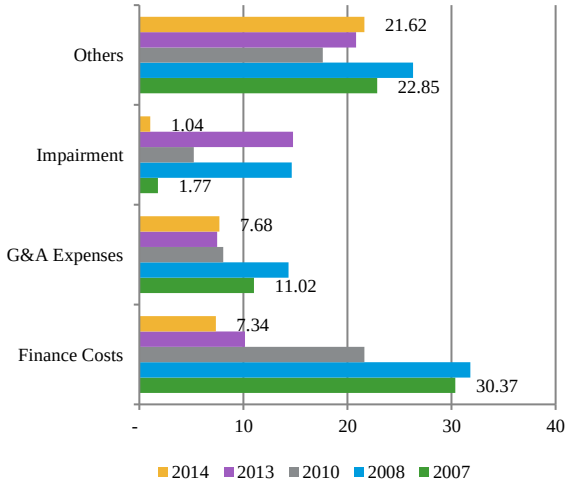
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



19. Company 19

Quick Facts	
Establishment Date	28th March 1982
Listing Date	28th May 1996
Number of Directors (Elected Directors)	5 (5)
Number of Subsidiaries	2
Number of Associates	4
Total Assets as at 31st December 2014	KD 110,372,162
Total Equity as at 31st December 2014	KD 59,082,842
Share Capital as at 31st December 2014	KD 68,000,000
Net Profit as at 31st December 2014	KD 3,941,975
Total Shares Traded in 2014 (Total Trades)	620.7 Mn Shares (15,415 Trades)
Outstanding Shares	638.0 Mn Shares
Total Share Turnover (x)	0.97
Free-Float Share Turnover (x)	1.60
Assets under Management in 2014 (in 2007)	KD 16.7 Mn (N/A)

The subsidiary's AUM does not seem to have been consolidated.

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 282.9 Mn in FY 2007 to KD 110.4 Mn in FY 2014 mainly because of a decrease of "Investments Assets". Further, the company disposed all of its "PPE" & "Investment Properties" in FY 2014.

ii. Debt amounted to of KD 169.1 Mn in FY 2007 & was increased in FY 2008 to KD 190.3 Mn. In the subsequent years, the company started settling its debt to reach KD 44.6 Mn in FY 2014. The company entered two agreements with its major creditors in FY 2014 to settle the remaining debt by FY 2015.

iii. Shareholders' Equity dropped from KD 97.5 Mn in FY 2007 to KD 59.1 Mn in FY 2014 mainly due to huge decrease of "Retained Earnings" from KD 26.0 Mn in FY 2007 to KD (9.8) Mn in FY 2014.

iv. In FY 2010, "Accumulated Losses" were written-off by KD 30.1 Mn against "Share Premium" & "Statutory Reserve".

Investment in associates includes investment in Al Aman Investments carried at KD 11.9 Mn (market value of KD 6.8 Mn) & Gatehouse Bank carried at KD 66.8 Mn. Also, includes KD 43.8 Mn intangibles.

Current liabilities exceed current assets by KD 36.2 Mn, however has entered into a debt settlement agreement to correct this situation.

Income Statement Analysis:

Sustainability doubtful, though FY '15 expecting a large one-off gains as well.

Impact of net profit from disposal of discontinued operations exited in FY 2014.

Major reduction in G&A expenses.

Fee yield of 0.07%

Key Highlights:

i. Revenues declined from KD 36.3 Mn in FY 07 to KD 2.4 Mn (one time) in FY 14.
ii. The company withdrew from the real estate activities in FY 2010. Also, the company is withdrawing itself from the "Fees Income" gradually as it has been diminishing over the years.
iii. In FY 2014, the company entered into a debt agreement where two subsidiaries (New Technology Bottling Co. & Kuwait Boxes Carton Manufacturing Co.) in a result the company lost operating income from those subsidiaries & "Profit from Discontinued Operations" was recognized.
iv. In FY 2014, the only income source for the company was "Share of Results of Associates" at KD 2.5 Mn.
v. Major impairment witnessed in FY 2008 & FY 2013 of KD 6.7 Mn & KD 6.5 Mn respectively.
vi. Net Profit deteriorated from KD 27.5 Mn in FY 2007 to KD (24.0) Mn in FY 2008 & stood at KD 3.9 Mn in FY 2014.

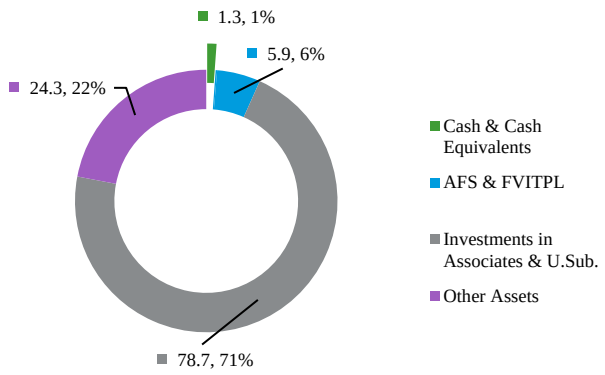
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	9.5%	(8.0%)	(15.4%)	(2.9%)	2.4%	TCI / AA
Return on Equity	31.4%	(27.9%)	(191.4%)	(7.2%)	3.4%	TCIS / AE
Solvency Ratios:						
Debt Ratio	59.8%	60.3%	80.9%	43.6%	40.4%	Debt / TA
Debt to Equity Ratio	173.4%	193.3%	2123.1%	84.9%	75.5%	Debt / TE
Financial Leverage (x)	2.90	3.21	26.25	1.95	1.87	TA / TE
Interest Coverage (x)	3.11	(0.65)	(1.80)	(14.08)	13.88	EBIT / Int
CBK Ratios:						
Leverage Ratio	197.9%	241.4%	2525.5%	95.0%	86.8%	TL / TE
Shouldn't Exceed 200%	✓	✗	✗	✓	✓	
Quick Ratio	5.5%	5.6%	13.9%	8.2%	2.5%	Cash / TL
Should Exceed 10%	✗	✗	✓	✗	✗	

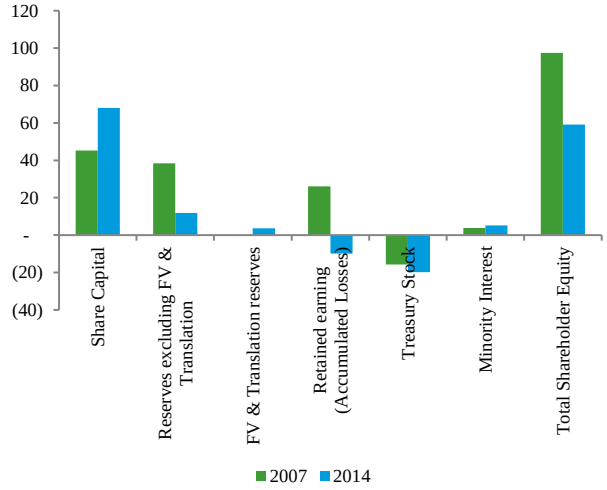
i. Profitability ratios have been experiencing a declining trend which improved in FY 2014 as the company made profits.
ii. Solvency ratios have been increasing till in FY 2010 but witnessed a decrease in FY 2013 as the company settled a portion of the debt through asset swaps. As the company was making net losses, the interest coverage was negative indicating the incapability of the company to cover interest costs, but in FY 2014, the interest coverage is positive as the company made profits.
iii. As per CBK's principles, leverage ratio should not exceed 200% & the company managed to have it below 200% starting FY 2013, under 100% in fact, indicating management success in settling debt.

Figure 19: Company 19 – Key Financial Data

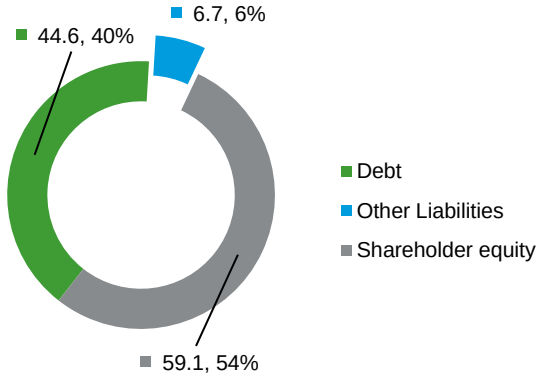
Asset Composition (KD Mn)



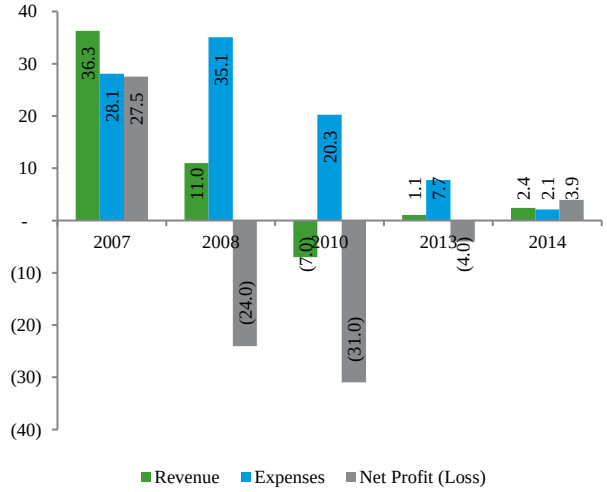
Equity Composition (KD Mn)



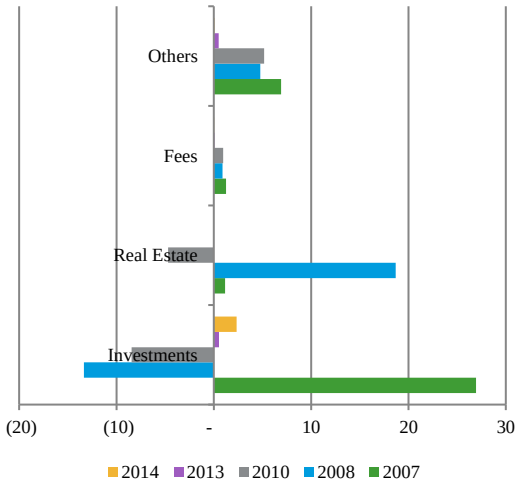
Capital Structure (KD Mn)



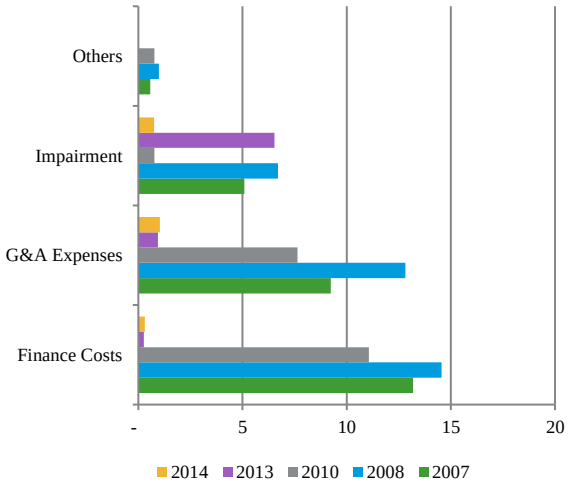
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



20. Company 20

Quick Facts	
Establishment Date	15th April 1980
Listing Date	31st December 1996
Number of Directors (Elected Directors)	5 (1)
Number of Subsidiaries	19
Number of Associates	8
Total Assets as at 31st December 2014	KD 183,704,594
Total Equity as at 31st December 2014	KD 155,895,465
Share Capital as at 31st December 2014	KD 80,288,257
Net Profit as at 31st December 2014	KD 4,817,340
Total Shares Traded in 2014 (Total Trades)	102.7 Mn Shares (4,239 Trades)
Outstanding Shares	796.8 Mn Shares
Total Share Turnover (x)	0.13
Free-Float Share Turnover (x)	0.48
Assets under Management in 2014 (in 2007)	KD 4.0 Mn (KD 9.2 Mn)

Balance Sheet Analysis:

Lost KD 12.6 Mn in fair value loses of AFS investments & FVITPL. Also, includes KD 45 Mn in unquoted shares.

Lost KD 0.24 Mn as share of results from associates but received KD 1.6 Mn as dividends.

7 subsidiaries with equity stake in the range of 10% to 40%.

Key highlights:

i. Total Assets increased from KD 164.4 Mn in FY 2007 to KD 183.7 Mn in FY 2014 mainly because of an increase of "Investments in Associates" & "Investment Assets" however "Financing Receivables" declined.
ii. In FY 2011, the company acquired 5 associates & accordingly "Share Capital" was increased. In FY 2014.
iii. Debt amounted to of KD 65.7 Mn in FY 2007. In the subsequent years, the company started settling the debt to reach KD 19.5 Mn in FY 2014.
iv. Shareholders' Equity increased from KD 89.4 Mn in FY 2007 to KD 155.9 Mn in FY 2014 mainly due to an increase of "Share Capital" from KD 37.6 Mn in FY 2007 to KD 80.3 Mn in FY 2014.
v. In FY 2014, "Accumulated Losses" were written-off by KD 12.7 Mn against "Reserves excluding FV & Translation".

Income Statement Analysis:

Marked improvement in brokerage income and fee income. 300% increase in advisory fees.

In FY 2014, investment income includes KD 1.9 Mn dividends which grew from KD 1.3 Mn last year.

Expenses need to be controlled.

Key Highlights:

i. Revenues declined from KD 14.6 Mn in FY 2007 to KD 0.7 Mn in FY 2008. In FY 2014, revenues are restored back to KD 11.2 Mn.
ii. The company focus is mainly on "Investment Income". In FY 2013, the company started generating revenues from management & consultancy fees. Whereas, "Financing Income" has been diminishing over the years & "Rental Income" has been minimal.
iii. In FY 2013 & 2014, the company made a "Reversal of Provision for Instalment Credit Debtors" of KD 4.7 Mn without which the company would have broken even. The company should control its expenses.
iv. Major impairment witnessed in FY 2008 of KD 10.1 Mn.
v. Net Profit deteriorated from KD 9.0 Mn in FY 2007 to KD (15.6) Mn in FY 2008 & stood at KD 4.8 Mn in FY 2014.

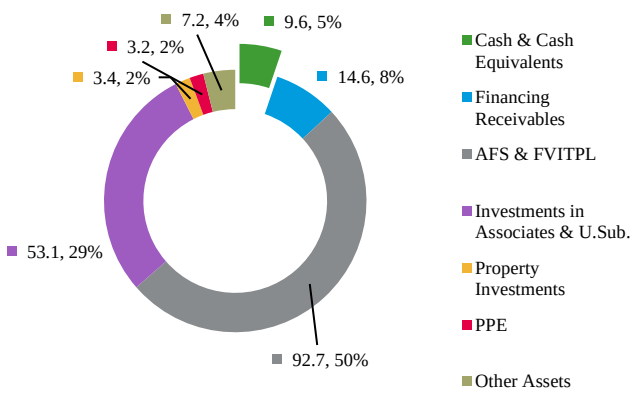
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	5.9%	(9.8%)	(4.2%)	5.7%	(4.8%)	TCI / AA
Return on Equity	10.6%	(18.1%)	(6.1%)	7.3%	(7.5%)	TCIS / AE
Solvency Ratios:						
Debt Ratio	39.9%	41.5%	19.7%	14.7%	10.6%	Debt / TA
Debt to Equity Ratio	73.5%	76.7%	25.7%	18.2%	12.5%	Debt / TE
Financial Leverage (x)	1.84	1.85	1.30	1.24	1.18	TA / TE
Interest Coverage (x)	5.11	(6.12)	(2.10)	2.56	5.98	EBIT / Int
CBK Ratios:						
Leverage Ratio	84.0%	84.8%	30.1%	24.3%	17.8%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	10.5%	8.1%	23.1%	36.0%	34.4%	Cash / TL
Should Exceed 10%	✓	✗	✓	✓	✓	

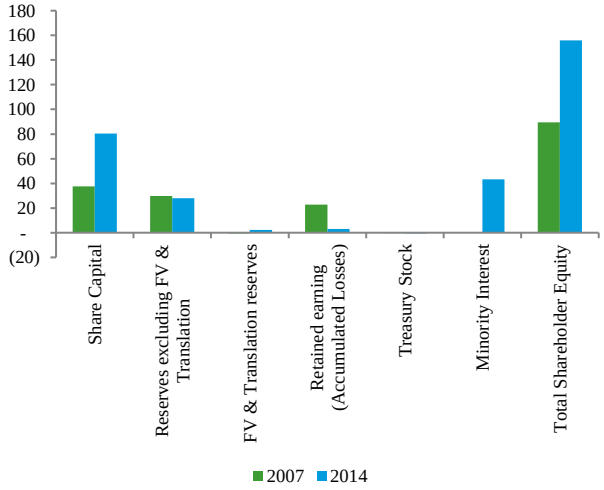
i. Profitability ratios have been declining since FY 2008 & been negative since FY 2010 till FY 2012 as the company was making losses. In FY 2013, the company's profitability ratios improved as the company made profits & were enhanced in FY 2014 mainly due to higher provision reversal. However the same cannot be sustained.
ii. Solvency ratios have exhibited a declining trend since FY 2010 as the company was regularly settling its debt. Interest coverage in FY 2014 increased, as the operating profit increased & the company is able to cover its interest cost.

Figure 20: Company 20 – Key Financial Data

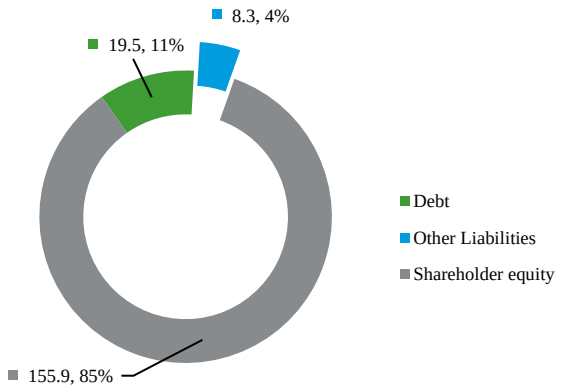
Asset Composition (KD Mn)



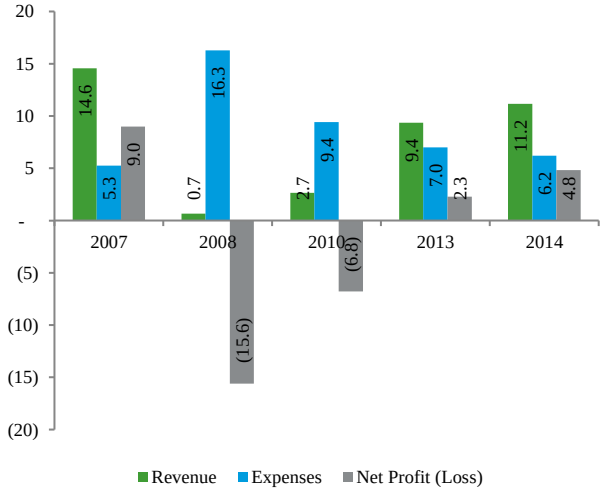
Equity Composition (KD Mn)



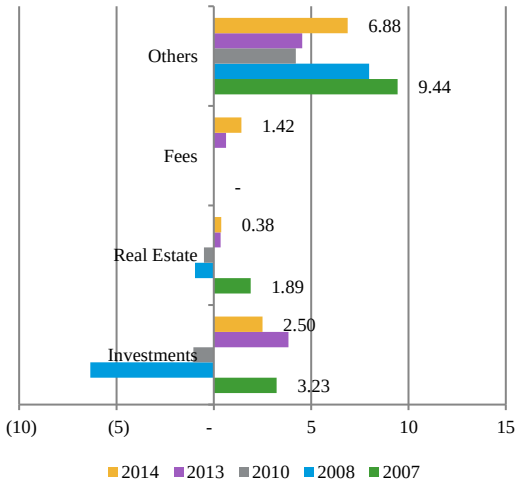
Capital Structure (KD Mn)



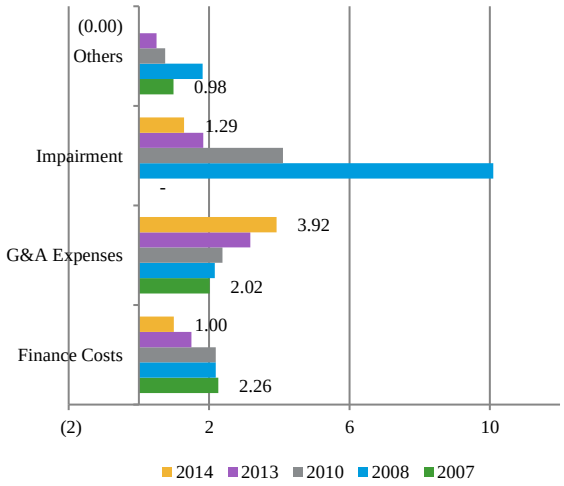
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



21. Company 21

Quick Facts	
Establishment Date	29th July 1975
Listing Date	5th November 1989
Number of Directors (Elected Directors)	7 (5)
Number of Subsidiaries	8
Number of Associates	1
Total Assets as at 31st December 2014	KD 193,574,000
Total Equity as at 31st December 2014	KD 111,994,000
Share Capital as at 31st December 2014	KD 62,529,000
Net Profit as at 31st December 2014	KD 11,838,000
Total Shares Traded in 2014 (Total Trades)	884.5 Mn Shares (17,350 Trades)
Outstanding Shares	576.7 Mn Shares
Total Share Turnover (x)	1.53
Free-Float Share Turnover (x)	3.73
Assets under Management in 2014 (in 2007)	KD 294.0 Mn (KD 436.0 Mn)

Balance Sheet Analysis:

Key highlights:

Other assets include KD 78.2 Mn of Intangibles which compromises of KD 41 Mn with infinite life. Also includes KD 26 Mn of inventory & KD 15 Mn of accounts receivables.

i. Total Assets decreased slightly from KD 208.9 Mn in FY 2007 to KD 193.6 Mn in FY 2014 mainly because of a huge decrease of "Investment Assets" & "Investment in Associates" accompanied with a huge increase of "Cash & Cash Equivalents", "Inventories" & "Intangible Assets" but at a lower rate.
ii. "Intangible Assets" amounted to KD 78.2 Mn in FY 2014 consisting of: goodwill, trademark, patent rights, technology & customer relationship.
iii. Debt amounted to of KD 108.8 Mn in FY 2007. In the subsequent years, the company started settling the debt to reach KD 4.1 Mn in FY 2014.
iv. The company entered two debt settlement agreements with the lenders which involved settling the debt through "Investment Assets", "Investment in Associates & Subsidiaries" & "Treasury Shares".
v. Shareholders' Equity increased from KD 94.8 Mn in FY 2007 to KD 112.0 Mn in FY 2014 mainly due to huge increase of "Minority Interest" from KD 0.07 Mn in FY 2007 to KD 49.0 Mn in FY 2014.

Income Statement Analysis:

Key Highlights:

Other income includes KD 19.8 Mn debt settlement gain.

G&A expenses increase of KD 8.5 Mn due to a legal claim provision.

Unsustainable net profit levels.

i. Revenues declined from KD 39.0 Mn in FY 2007 to KD 2.8 Mn in FY 2008. In FY 2014, revenues outperformed FY 2007 levels to reach KD 98.4 Mn.
ii. In FY 2011, the company has obtained effective control over Kuwait German Holding Co. due to a change in the composition of board of directors. As a result, the company had a new source of income from "Manufacturing of Wood Processing Equipment".
iii. In FY 2014, the company's sole income was from "Manufacturing of Wood Processing Equipment" of KD 73.4 Mn. The company withdrew from "Investment Income" & "Fees Income" which combined was KD 0.6 Mn in FY 2014 compared to KD 12.1 Mn in FY 2010.
iv. Major impairment witnessed in FY 2008 of KD 15.6 Mn.
v. Net Profit deteriorated from KD 25.9 Mn in FY 2007 to KD (25.0) Mn in FY 2008 & stood at KD 11.8 Mn in FY 2014.

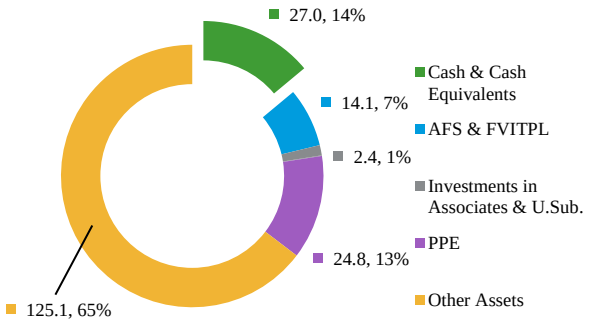
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	14.3%	(12.7%)	5.4%	2.6%	(0.4%)	TCI / AA
Return on Equity	30.0%	(31.6%)	15.0%	7.5%	12.1%	TCIS / AE
Solvency Ratios:						
Debt Ratio	52.1%	63.6%	58.4%	22.2%	2.1%	Debt / TA
Debt to Equity Ratio	114.8%	184.5%	149.3%	42.6%	3.7%	Debt / TE
Financial Leverage (x)	2.20	2.90	2.56	1.92	1.73	TA / TE
Interest Coverage (x)	3.70	(1.45)	2.20	0.89	5.79	EBIT / Int
CBK Ratios:						
Leverage Ratio	120.4%	190.2%	155.8%	91.8%	72.8%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	0.8%	14.4%	3.4%	27.0%	33.1%	Cash / TL
Should Exceed 10%	✗	✓	✗	✓	✓	

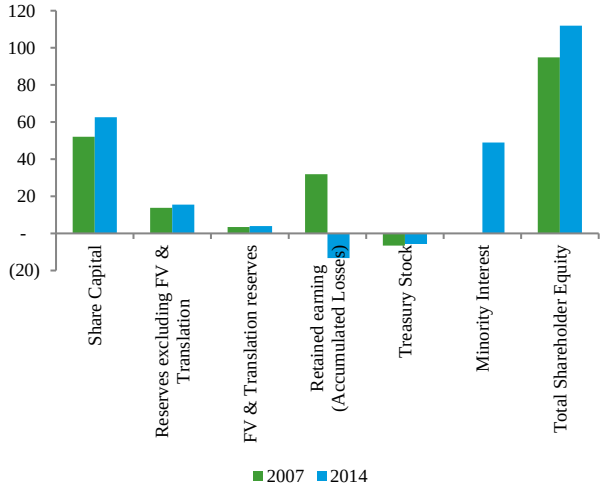
i. Profitability ratios have not been stable over the years as the company faced unstable profits & losses during the years. In FY 2014, the company had improved profits so in return the ratios improved.
ii. Solvency ratios have exhibited a declining trend over the years & in FY 2014 it was at its lowest as the company entered into two debt settlement agreements & has settled most of its debt.

Figure 21: Company 21 – Key Financial Data

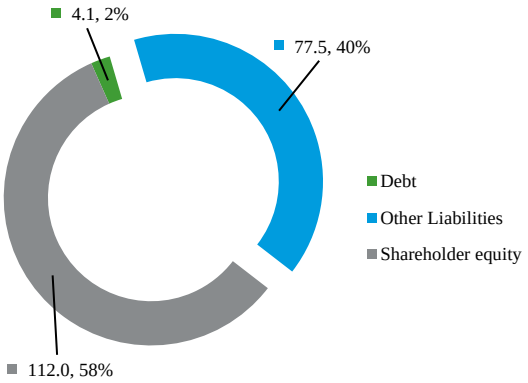
Asset Composition (KD Mn)



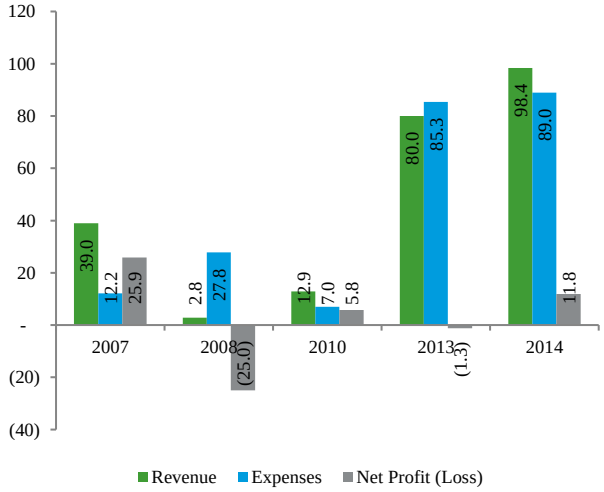
Equity Composition (KD Mn)



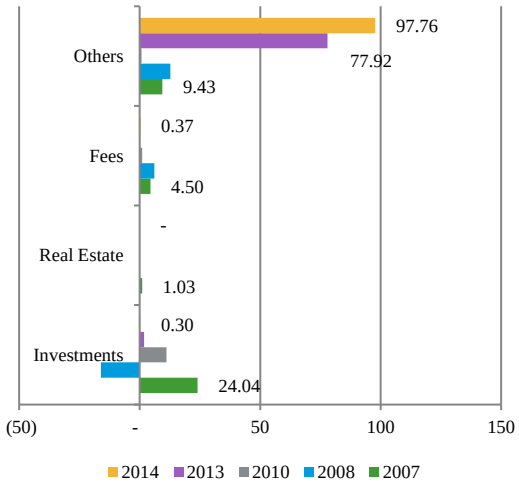
Capital Structure (KD Mn)



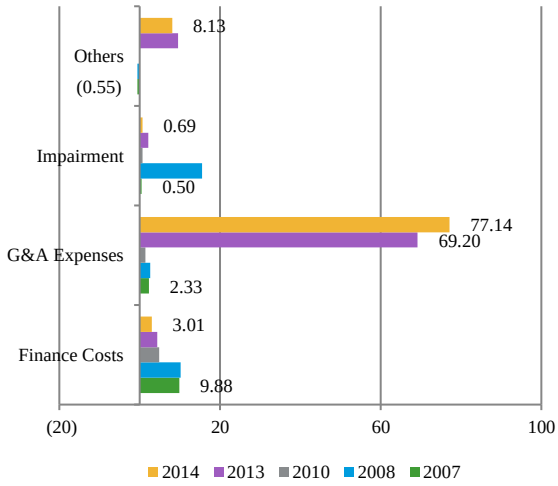
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



22. Company 22

Quick Facts	
Establishment Date	15th July 2007
Number of Directors (Elected Directors)	5 (N/A)
Number of Subsidiaries	1
Number of Associates	1
Total Assets as at 31st December 2014	KD 27,991,164
Total Equity as at 31st December 2014	KD 27,369,733
Share Capital as at 31st December 2014	KD 24,937,593
Net Profit as at 31st December 2014	KD 833,047
Assets under Management in 2014 (in 2007)	KD 44.8 Mn (N/A)

Balance Sheet Analysis:

Key highlights:

i. Total Assets increased from KD 15.9 Mn in FY 2008 to KD 28.0 Mn in FY 2014 mainly because of an increase of "Investment Assets", "Cash & Cash Equivalents" & "Accounts Receivables".
ii. In FY 2014, the company sold a subsidiary with a stake of 99.2% (Al Fouz Investment Co.).
iii. In FY 2014, the company purchased "Investment Properties" from the former subsidiary.
iv. Debt amounted to of KD 0.2 Mn in FY 2008 & was fully settled in FY 2009.
v. Shareholders' Equity increased from KD 15.2 Mn in FY 2008 to KD 27.4 Mn in FY 2014 mainly due to an increase of "Share Capital" from KD 15.0 Mn in FY 2008 to KD 24.9 Mn in FY 2014.

Income Statement Analysis:

Key Highlights:

i. Revenues increased from KD 1.0 Mn in FY 2008 to KD 3.8 Mn in FY 2014.
ii. The company generates income through "Investment Income", "Real Estate Income", "Financing Income" & "Fees Income".
iii. Over the years, "G&A Expenses" have been increasing.
iv. Net Profit increased from KD 0.1 Mn in FY 2008 to KD 0.8 Mn in FY 2014.

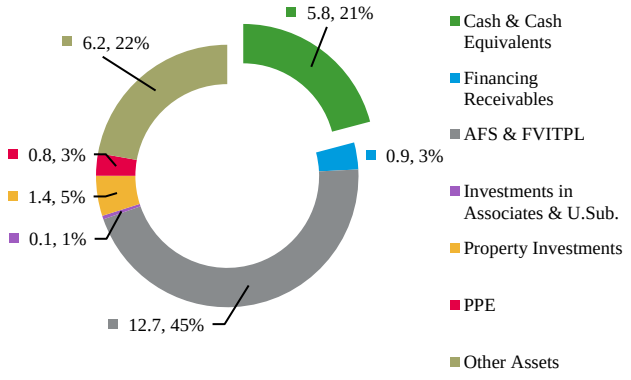
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	-	0.5%	3.6%	6.5%	3.3%	TCI / AA
Return on Equity	-	0.6%	3.3%	6.8%	3.4%	TCIS / AE
Solvency Ratios:						
Debt Ratio	-	1.1%	0.0%	0.0%	0.0%	Debt / TA
Debt to Equity Ratio	-	1.2%	0.0%	0.0%	0.0%	Debt / TE
Financial Leverage (x)	-	1.05	1.02	1.03	1.02	TA / TE
Interest Coverage (x)	-	11.58	-	49.81	-	EBIT / Int
CBK Ratios:						
Leverage Ratio	-	4.9%	1.7%	3.1%	2.3%	TL / TE
Shouldn't Exceed 200%	-	✓	✓	✓	✓	
Quick Ratio	-	65.3%	546.9%	146.7%	940.5%	Cash / TL
Should Exceed 10%	-	✓	✓	✓	✓	

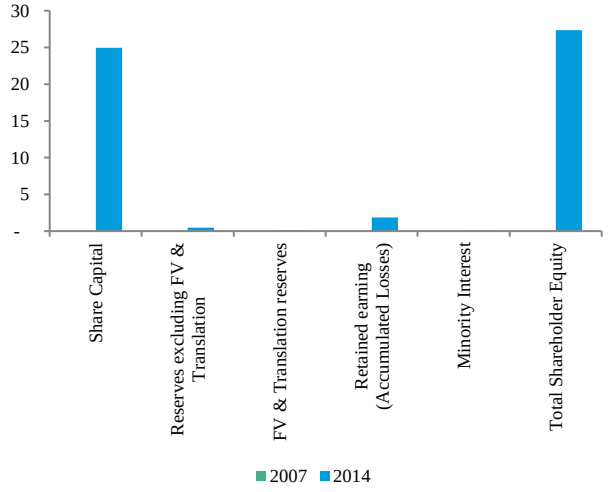
i. Profitability ratios have exhibited an inclining trend between FY 2010 & 2013, but it decreased in FY 2014 due to a decrease in profits. The company should control its expenses as they increased over the years.
ii. Solvency ratios have been 0% since FY 2010 as the company settled its debt.
iii. As per CBK's principles, leverage ratio should not exceed 200%, & the company managed to keep it below 200% over the years as the company settled its debt & is dependent on its equity to finance its operations. On the other hand, quick ratio should exceed 10% & the company managed to achieve it over the years indicating the ability of the company to meet its obligations.

Figure 22: Company 22 – Key Financial Data

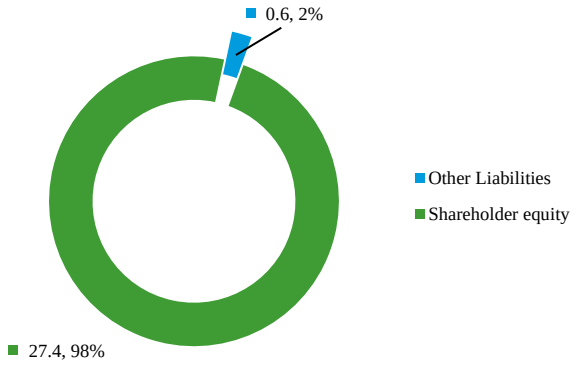
Asset Composition (KD Mn)



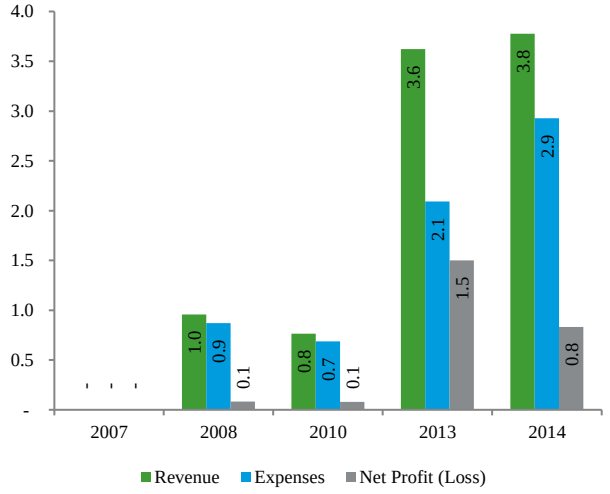
Equity Composition (KD Mn)



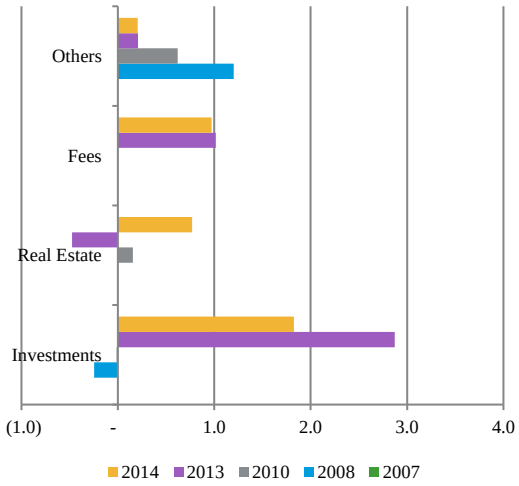
Capital Structure (KD Mn)



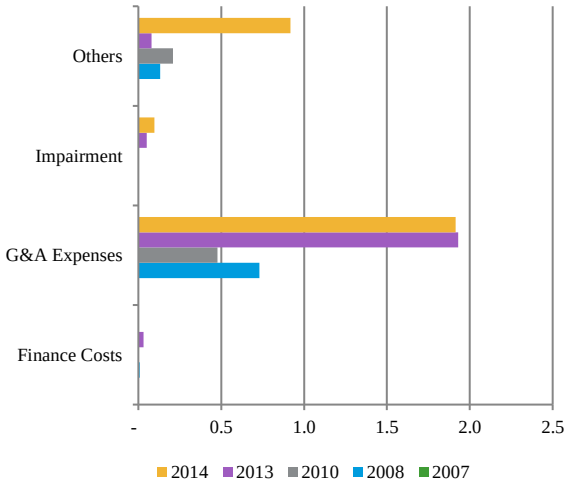
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



23. Company 23

Banks hold 74.3% of capital.

Quick Facts	
Establishment Date	1st January 1984
Listing Date	29th July 1997
Number of Directors (Elected Directors)	7 (2)
Number of Subsidiaries	4
Number of Associates	1
Total Assets as at 31st December 2014	KD 50,218,594
Total Equity as at 31st December 2014	KD 23,385,043
Share Capital as at 31st December 2014	KD 26,381,499
Net Profit as at 31st December 2014	KD (1,095,689)
Total Shares Traded in 2014 (Total Trades)	22.1 Mn Shares (1,246 Trades)
Outstanding Shares	261.2 Mn Shares
Total Share Turnover (x)	0.08
Free-Float Share Turnover (x)	0.33
Assets under Management in 2014 (in 2007)	KD 0.5 Bn (KD 1.7 Bn)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 112.9 Mn in FY 2007 to KD 50.2 Mn in FY 2014 mainly because of a decrease of "Investment Assets".
ii. "Intangible Assets" represents brokerage license acquired from Kuwait Stock Exchange for KD 12.5 Mn which has indefinite useful life.
iii. Debt amounted to of KD 43.3 Mn in FY 2007. In the subsequent years, the company started settling its debt to reach KD 23.3 Mn in FY 2014.
iv. Shareholders' Equity dropped from KD 64.6 Mn in FY 2007 to KD 23.4 Mn in FY 2014 mainly due to huge decrease of "Retained Earnings" from KD 19.4 Mn in FY 2007 to KD (5.1) Mn in FY 2014.
v. In FY 2014, "Accumulated Losses" were written-off by KD 14.2 Mn against "Reserves excluding FV & Translation".

Income Statement Analysis:

Key Highlights:

Stable & substantial fee income.

i. Revenues declined from KD 25.1 Mn in FY 2007 to KD 4.3 Mn in FY 2014.
ii. The company main sources of income include: "Fees Income" & "Commission Income" although they diminished over the years.
iii. The company also has "Investment Income" & "Financing Income" which are at low levels compared to the other income sources.
iv. Major impairment witnessed in FY 2010 of KD 2.4 Mn.
v. Net Profit deteriorated from KD 13.7 Mn in FY 2007 to KD 4.1 Mn in FY 2008 & stood at KD (1.1) in FY 2014.

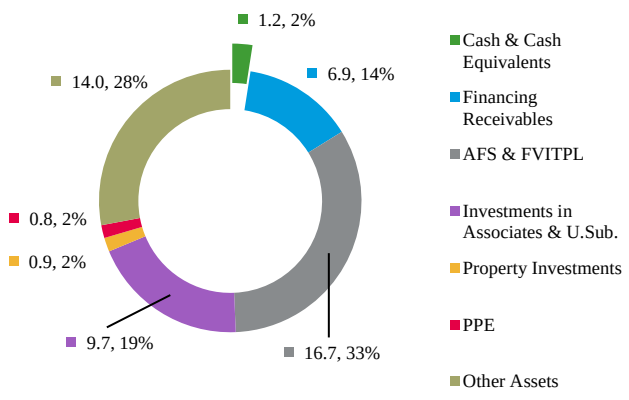
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	14.2%	4.0%	(12.0%)	3.0%	(3.7%)	TCI / AA
Return on Equity	25.8%	6.9%	(22.5%)	6.6%	(8.4%)	TCIS / AE
Solvency Ratios:						
Debt Ratio	38.3%	38.1%	37.3%	44.9%	46.4%	Debt / TA
Debt to Equity Ratio	66.9%	65.6%	64.4%	94.9%	99.6%	Debt / TE
Financial Leverage (x)	1.75	1.72	1.73	2.11	2.15	TA / TE
Interest Coverage (x)	6.92	3.03	(9.14)	2.83	(0.55)	EBIT / Int
CBK Ratios:						
Leverage Ratio	74.7%	72.3%	72.8%	111.3%	114.7%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	17.4%	17.7%	14.9%	4.5%	4.6%	Cash / TL
Should Exceed 10%	✗	✗	✓	✓	✓	

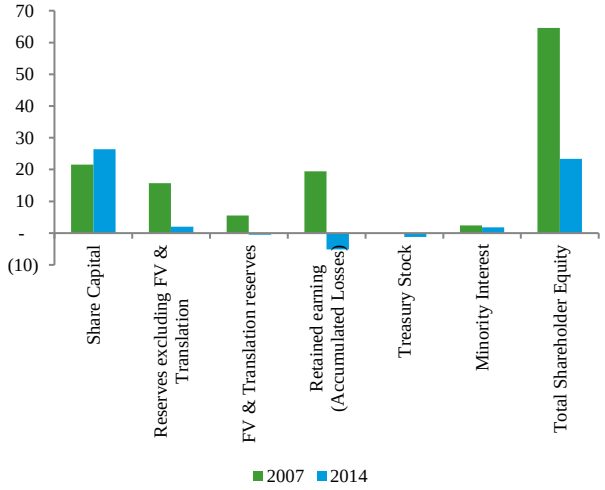
i. Liquidity has been an issue for the company since FY 2010. The company may face difficulties & it won't be able to meet its short term obligations.
ii. Profitability ratios have been negative since FY 2009 till FY 2012 as the company was making losses. In FY 2013, the company achieved profits as it managed to control its expenses, but in FY 2014, the company's net revenues decreased & expenses increased which led to a loss once more.
iii. Solvency ratios have been stable in the last two years as both assets & equity decreased while debt decreased by a minor amount. Furthermore, the company did not make enough operating profit to cover its interest costs in FY 2014.
iv. As per CBK's principles, leverage ratio should not exceed 200%, & the company did manage to keep it below 200% over the years indicating the healthy use of debt to finance its operations. On the other hand, quick ratio should exceed 10% & the company did manage to achieve over the years, other than in FY 2007 & 2008, indicating the ability of the company to meet its obligations.

Figure 23: Company 23 – Key Financial Data

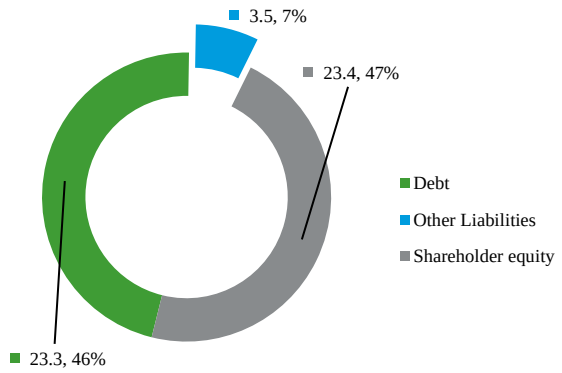
Asset Composition (KD Mn)



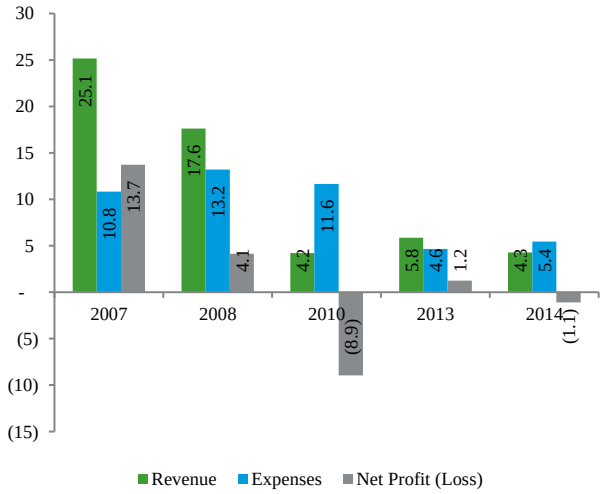
Equity Composition (KD Mn)



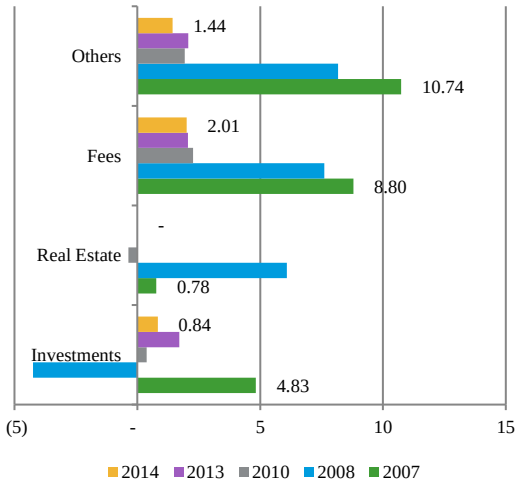
Capital Structure (KD Mn)



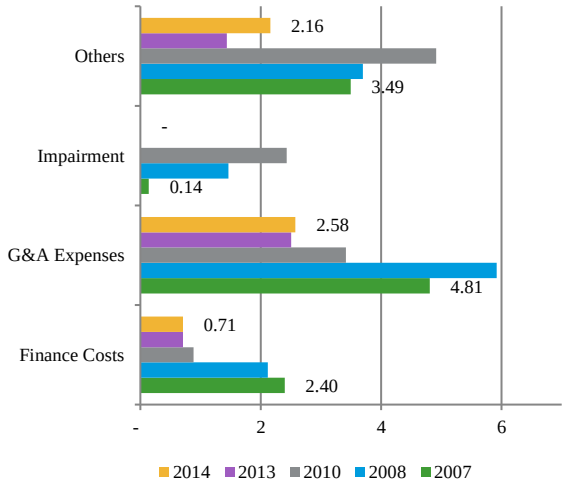
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



24. Company 24

Quick Facts	
Establishment Date	21st July 1997
Listing Date	5th May 2003
Number of Directors (Elected Directors)	6 (4)
Number of Subsidiaries	11
Number of Associates	0
Total Assets as at 31st December 2014	KD 92,060,297
Total Equity as at 31st December 2014	KD 50,623,259
Share Capital as at 31st December 2014	KD 39,266,391
Net Profit as at 31st December 2014	KD 2,000,994
Total Shares Traded in 2014 (Total Trades)	819.0 Mn Shares (18,834 Trades)
Outstanding Shares	362.3 Mn Shares
Total Share Turnover (x)	2.26
Free-Float Share Turnover (x)	3.05
Assets under Management in 2014 (in 2007)	KD 36.5 Mn (KD 46.0 Mn)

Balance Sheet Analysis:

Key highlights:

KD 42 Mn in equity value wiped off.

Property investments represent plots of land held for mix use development in Reem Island - Abu Dhabi.

i. Total Assets decreased from KD 177.1 Mn in FY 2007 to KD 92.1 Mn in FY 2014 mainly because of a decrease of "Investment Assets".
ii. In FY 2011, the company acquired an additional interest of 20.01% in Dar Al Dhabi Holding Co. which in return increased the stake of holding to 57.3%. Thereafter, Dar Al Dhabi Holding Co. was classified as a subsidiary & was consolidated with the company which was previously classified as "Investment in Associates".
iii. Debt amounted to of KD 90.4 Mn in FY 2007. In the subsequent years, the company started settling its debt to reach KD 8.4 Mn in FY 2014.
iv. In FY 2014, the company entered into a debt settlement agreement with a local bank to settle a loan of KD 28.0 Mn through write-off of KD 3.5 Mn of the loan, transfer of investment properties & quoted equity securities, and the remaining paid in cash.
v. In FY 2014, the company restructured a matured debt that amounted to KD 7.5 Mn to be paid in five years starting FY 2016.
vi. Shareholders' Equity dropped from KD 82.8 Mn in FY 2007 to KD 50.6 Mn in FY 2014 mainly due to huge decrease of "Retained Earnings" from KD 18.6 Mn in FY 2007 to KD (23.3) Mn in FY 2014.

Income Statement Analysis:

Other income includes debt settlement gain of KD 3.9 Mn.

Investment income includes improved dividend of KD 1.5 Mn and AFS settlement gain of KD 2.8 Mn.

Reduction in G&A expenses.

Key Highlights:

i. Revenues declined from KD 15.0 Mn in FY 2007 to KD 8.7 Mn in FY 2014.
ii. The focus of the company is on "Investment Income" although it deteriorated from KD 14.1 Mn in FY 2007 to KD 4.0 Mn in FY 2014, but in FY 2014 it witnessed an improvement from prior years. Further, the company generates income from retail activities which has been consistent in FY 2013 & 2014, but declined from prior years' levels.
iii. Another source of income for the company is "Fees Income" but it's not consistent. Furthermore, the company withdrew from financing activities.
iv. Major impairment witnessed in FY 2008 & 2010 of KD 12.5 Mn & KD 12.4 Mn respectively.
v. Net Profit deteriorated from KD 7.5 Mn in FY 2007 to KD 2.0 Mn in FY 2014.

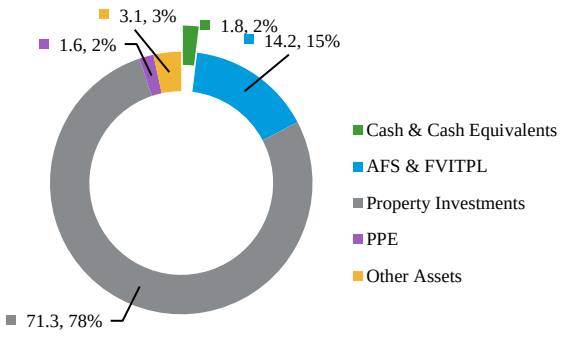
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	4.8%	7.4%	(13.4%)	2.3%	(0.4%)	TCI / AA
Return on Equity	9.1%	15.5%	(27.3%)	8.2%	0.4%	TCIS / AE
Solvency Ratios:						
Debt Ratio	51.1%	47.2%	48.8%	30.3%	9.1%	Debt / TA
Debt to Equity Ratio	109.3%	95.7%	100.5%	70.3%	16.5%	Debt / TE
Financial Leverage (x)	2.14	2.03	2.06	2.32	1.82	TA / TE
Interest Coverage (x)	2.58	3.03	(4.67)	1.53	4.79	EBIT / Int
CBK Ratios:						
Leverage Ratio	114.0%	102.6%	105.9%	131.5%	81.9%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	8.4%	4.7%	3.2%	1.6%	4.3%	Cash / TL
Should Exceed 10%	✗	✗	✗	✗	✗	

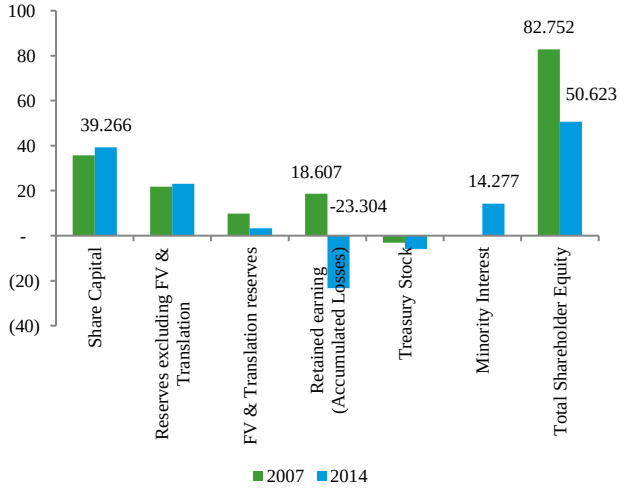
i. Liquidity has been an issue for the company after FY 2007 & the company won't be able to meet its short term obligations.
ii. Profitability ratios have been negative since FY 2009 till FY 2012 as the company made losses. In FY 2013, the company was able to achieve profits & in return the profitability ratios have improved. In FY 2014, the profit margin dropped although profits & revenues improved from KD 0.9 Mn & KD 2.4 Mn in FY 2013 to KD 2.0 Mn & KD 8.7 Mn in FY 2014 respectively. The reason behind the drop is the high expenses (impairments to be specific) against the revenues.
iii. Solvency ratios were stable over the years & declined in FY 2014 as the company entered into debt settlement agreement & settled portion of its debt.
iv. As per CBK's principles, leverage ratio should not exceed 200%, & the company managed to keep it below 200% over the years indicating the healthy use of debt to finance its operations. On the other hand, quick ratio should exceed 10% & the company did not manage to achieve it over the years indicating the disability of the company to meet its obligations.

Figure 24: Company 24 – Key Financial Data

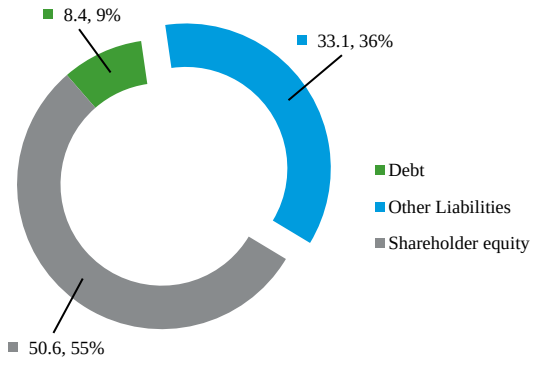
Asset Composition (KD Mn)



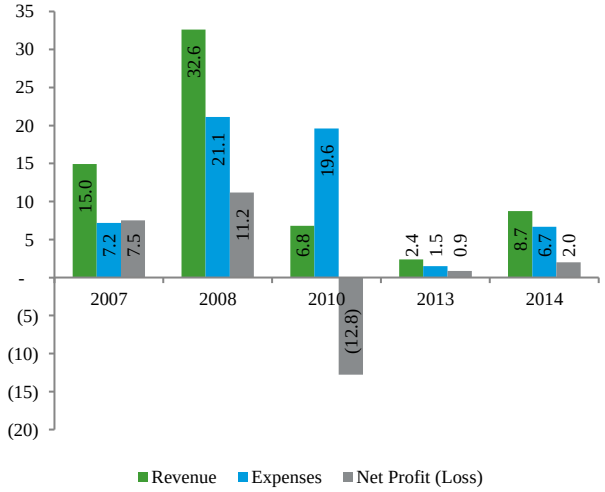
Equity Composition (KD Mn)



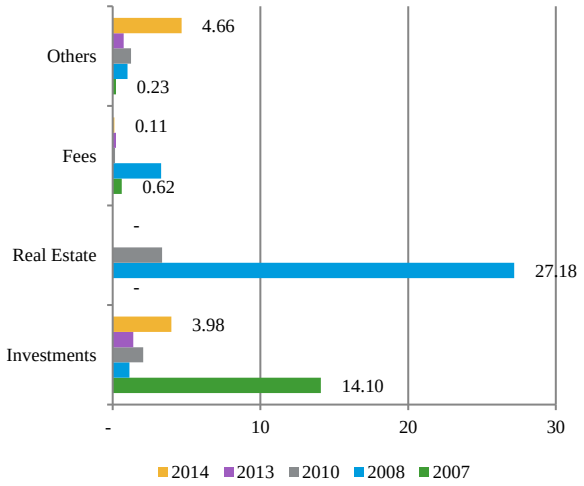
Capital Structure (KD Mn)



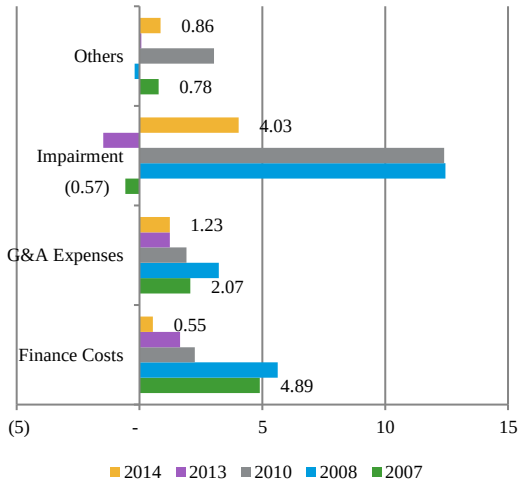
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



25. Company 25

Quick Facts	
Establishment Date	1st February 1980
Listing Date	15th January 2002
Number of Directors (Elected Directors)	6 (3)
Number of Subsidiaries	7
Number of Associates	2
Total Assets as at 31st December 2014	KD 62,983,101
Total Equity as at 31st December 2014	KD 30,132,359
Share Capital as at 31st December 2014	KD 52,828,125
Net Profit as at 31st December 2014	KD (11,493,016)
Total Shares Traded in 2014 (Total Trades)	804.9 Mn Shares (15,303 Trades)
Outstanding Shares	528.3 Mn Shares
Total Share Turnover (x)	1.52
Free-Float Share Turnover (x)	2.99
Assets under Management in 2014 (in 2007)	KD 66.5 Mn (N/A)

Banks hold 11.3% of capital.

Balance Sheet Analysis:

Key highlights:

Share Capital to increase by KD 14.4 Mn in FY 15 as part of a debt equity swap with banks and bond holders.

Other assets include KD 17.4 Mn of refundable development expense under legal dispute.

Major losses on disposal of IP raises doubts on quality of valuation.

i. Total Assets decreased from KD 210.1 Mn in FY 2007 to KD 63.0 Mn in FY 2014 mainly because of a decrease of "Investment Assets".
ii. The company disposed "Investment Properties", with a carrying value of KD 67.5 Mn for KD 50.0 Mn resulting in a loss of KD 17.4 Mn, to settle its debt through a debt settlement agreement with the lenders. The debt was settled by cash, transferring ownership & acquiring new debt.
iii. Debt amounted to of KD 82.4 Mn in FY 2007 & was increased in FY 2008 to KD 106.0 Mn. In the subsequent years, the company started settling its debt to reach KD 20.9 Mn in FY 2014.
iv. In FY 2012, "Accumulated Losses" were written-off by KD 28.0 Mn against "Reserves excluding FV & Translation" for the same amount. In spite of this, accumulated losses have accrued to 52% of share capital. Shareholder equity has reduced by KD 61 Mn since FY 2007.

Income Statement Analysis:

Key Highlights:

Other income includes debt settlement gains.

Fee yield of 1.5%.

Major reduction in G&A expenses, though still very high considering low sustainable revenue.

i. Revenues declined from KD 18.0 Mn in FY 2007 to KD (5.2) Mn in FY 2014.
ii. "Real Estate Losses" of KD 17.6 Mn in FY 2014 represent the sale of the "Investment Property" for the purpose of settling debt.
iii. The company main sources of income are "Fees Income". The secondary income of the company is "Investment Income" although the company is suffering from losses as "Unrealized Gain from Investments at FV through Income Statement" is consistent over the years.
iv. The company also has "Financing Income" & "Communication Services Income" which are minimal.
v. Major impairment witnessed in FY 2010 of KD 10.9 Mn.
vi. Net Profit deteriorated from KD 4.7 Mn in FY 2007 to KD (11.5) Mn in FY 2014.

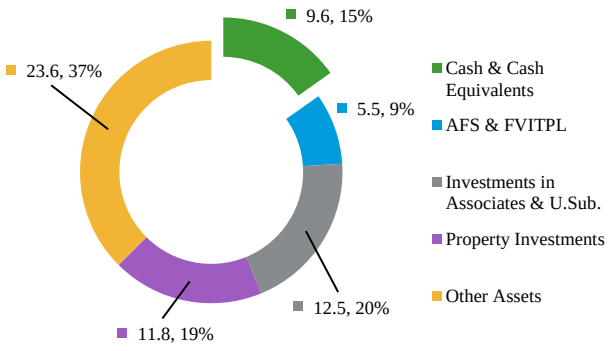
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	2.4%	(3.7%)	5.3%	(9.2%)	(12.9%)	TCI / AA
Return on Equity	5.9%	(10.7%)	16.7%	(30.9%)	(20.3%)	TCIS / AE
Solvency Ratios:						
Debt Ratio	39.2%	47.5%	40.9%	55.9%	33.1%	Debt / TA
Debt to Equity Ratio	90.3%	128.1%	86.2%	166.6%	69.2%	Debt / TE
Financial Leverage (x)	2.30	2.70	2.10	2.98	2.09	TA / TE
Interest Coverage (x)	1.99	0.03	2.68	(2.00)	(7.41)	EBIT / Int
CBK Ratios:						
Leverage Ratio	130.2%	169.7%	110.5%	197.9%	109.0%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	7.2%	20.2%	18.2%	6.3%	29.1%	Cash / TL
Should Exceed 10%	✗	✓	✓	✗	✓	

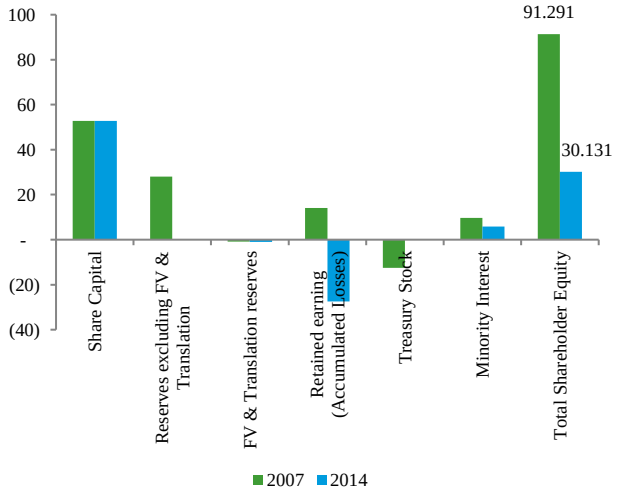
i. Profitability ratios have been negative since FY 2011 as the company has been experiencing losses since then. The company is in a bad shape since FY 2011 & should take actions to liquidate non income generating assets and focus on turning around the company.
ii. Solvency ratios have exhibited a declining trend as the company has been settling its debt through debt settlement agreement.

Figure 25: Company 25 – Key Financial Data

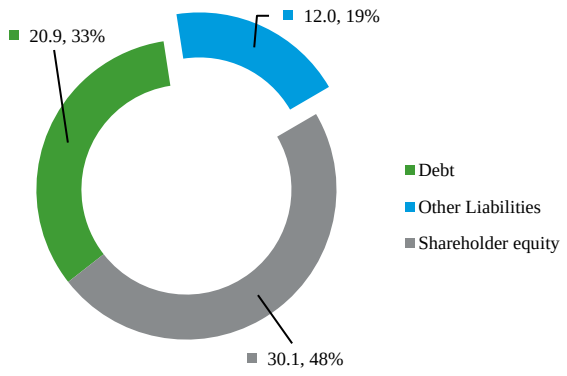
Asset Composition (KD Mn)



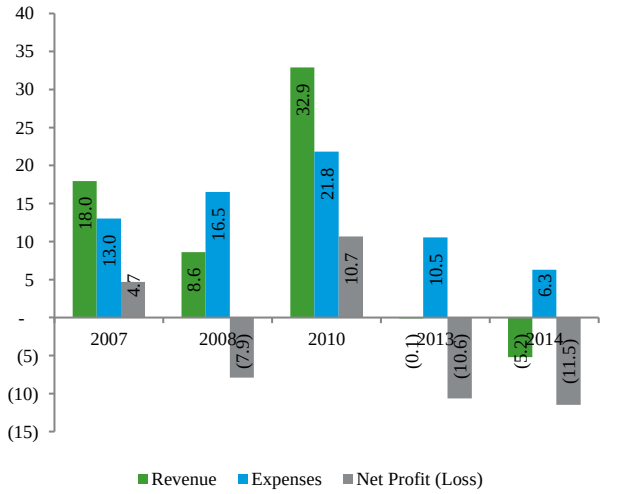
Equity Composition (KD Mn)



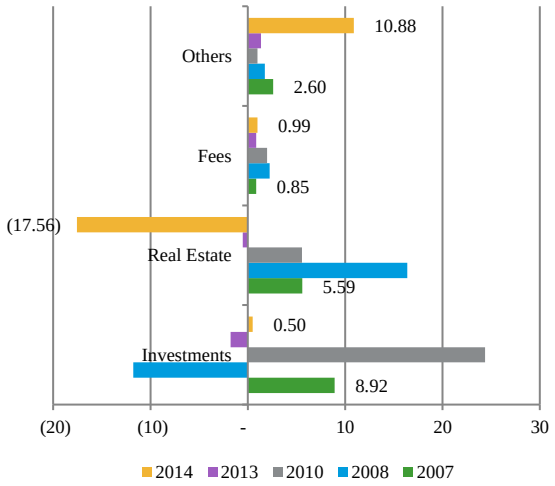
Capital Structure (KD Mn)



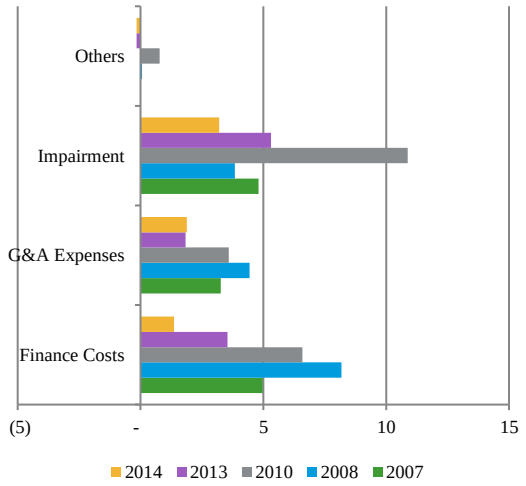
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



26. Company 26

Quick Facts	
Establishment Date	6th December 2003
Number of Directors (Elected Directors)	5 (N/A)
Number of Subsidiaries	3
Number of Associates	0
Total Assets as at 31st December 2014	KD 45,201,295
Total Equity as at 31st December 2014	KD 35,618,768
Share Capital as at 31st December 2014	KD 30,874,759
Net Profit as at 31st December 2014	KD 2,189,608
Assets under Management in 2014 (in 2007)	N/A (N/A)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 58.5 Mn in FY 2010 to KD 45.2 Mn in FY 2014 mainly because of a decrease of "Accounts Receivables".

ii. In FY 2012, the company disposed its "Investment in Associates".

Mainly into financing.

iii. Debt amounted to of KD 22.1 Mn in FY 2010. In the subsequent years, the company started settling its debt to reach KD 6.9 Mn in FY 2014.

iv. Shareholders' Equity slightly increased from KD 34.2 Mn in FY 2010 to KD 35.6 Mn in FY 2014 mainly due to a slight increase of "Retained Earnings" from KD 0.4 Mn in FY 2010 to KD 1.7 Mn in FY 2014.

Income Statement Analysis:

Key Highlights:

i. Revenues declined from KD 6.0 Mn in FY 2010 to KD 4.6 Mn in FY 2014.
ii. During the years, net revenues decreased but the company controlled its expenses & decreased it as well at a higher rate than the net revenues.
iii. The company's main source of income is "Financing Income" which consists of 92.0% of net revenues. In addition, the company has marginal revenues from "Rental Income" & "Investment Income".
iv. Net Profit improved from KD 0.9 Mn in FY 2010 to KD 2.2 Mn in FY 2014.
v. The company is performing well, but it has been through controlling costs and not by improving the top line.

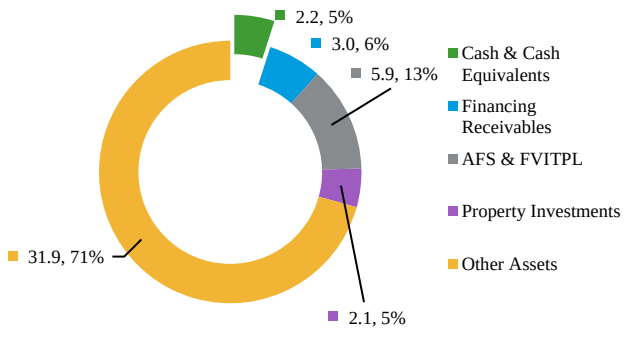
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	-	-	1.2%	3.4%	4.5%	TCI / AA
Return on Equity	-	-	2.4%	5.6%	6.3%	TCIS / AE
Solvency Ratios:						
Debt Ratio	-	-	37.8%	23.9%	15.3%	Debt / TA
Debt to Equity Ratio	-	-	64.7%	37.2%	19.5%	Debt / TE
Financial Leverage (x)	-	-	1.71	1.56	1.27	TA / TE
Interest Coverage (x)	-	-	1.37	3.08	5.42	EBIT / Int
CBK Ratios:						
Leverage Ratio	-	-	71.3%	55.6%	26.9%	TL / TE
Shouldn't Exceed 200%	-	-	✓	✓	✓	
Quick Ratio	-	-	6.6%	2.8%	23.3%	Cash / TL
Should Exceed 10%	-	-	×	✓	✓	

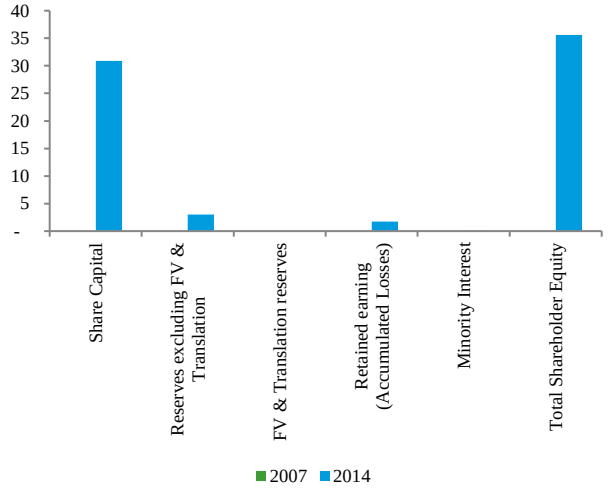
iii. Profitability ratios have exhibited an inclining trend over the years due to an improved profits over the years.
iv. Solvency ratios have exhibited a declining trend over the years as the company was settling its debt gradually over the years. Furthermore, the company made decent operating profits to cover its interest costs.
v. As per CBK's principles, leverage ratio should not exceed 200%, & the company managed to keep it under 200% over the years indicating the healthy use of debt to finance its operations. On the other hand, quick ratio should exceed 10% & the company managed to achieve it over the years, other than in FY 2010, indicating the ability of the company to meet its obligations.

Figure 26: Company 26 – Key Financial Data

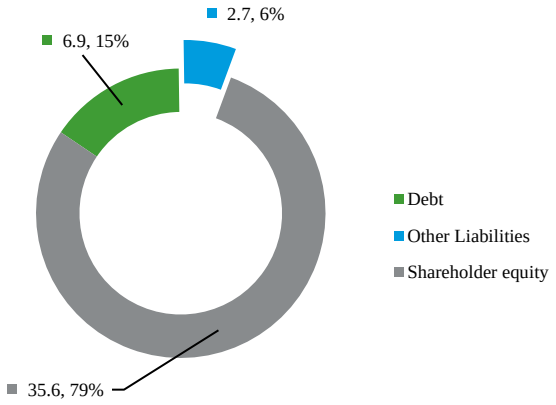
Asset Composition (KD Mn)



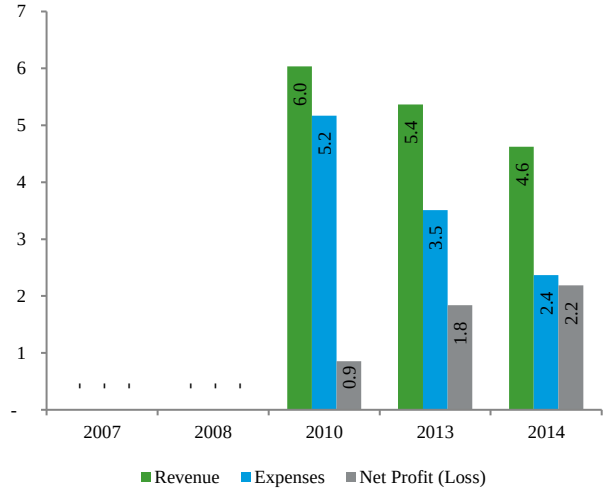
Equity Composition (KD Mn)



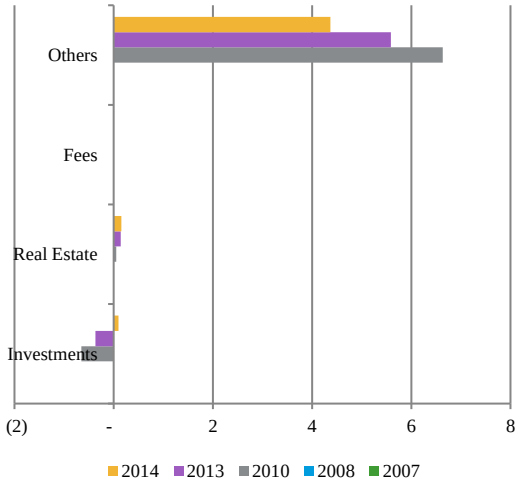
Capital Structure (KD Mn)



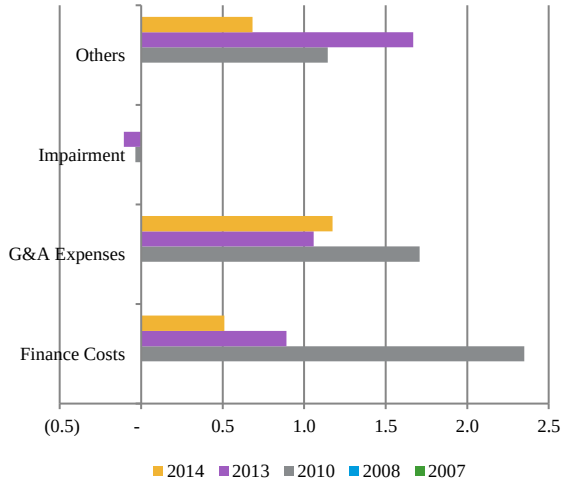
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



27. Company 27

Quick Facts	
Establishment Date	10th February 2008
Number of Directors (Elected Directors)	5 (N/A)
Number of Subsidiaries	5
Number of Associates	0
Total Assets as at 31st December 2014	KD 51,362,227
Total Equity as at 31st December 2014	KD 35,635,471
Share Capital as at 31st December 2014	KD 30,000,000
Net Profit as at 31st December 2014	KD 3,031,473
Assets under Management in 2014 (in 2008)	N/A (N/A)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 52.4 Mn in FY 2013 to KD 51.4 Mn in FY 2014 mainly because of a decrease of "Financing Receivables" by 11.7 Mn while "Property Investments" increased by 11.4 Mn.
ii. The company transferred properties from "Trading Properties" to "Investment Properties" for the purpose of making rental income from them in the future.
iii. In FY 2014, the company has participated in a real estate project.
iv. Debt amounted to of KD 13.7 Mn in FY 2013 to KD 9.4 Mn in FY 2014 as the company settled portion of the debt.
v. Shareholders' Equity increased by KD 0.5 Mn in FY 2014 as a portion of net profit was transferred to "Retained Earnings" & "Reserves excluding FV & Translation".

Income Statement Analysis:

Real estate income includes both real estate financing income & returns from real estate.

Increase in G&A, without top line growth.

Key Highlights:

i. Net revenues & expenses stayed stable between FY 2013 & 2014.
ii. The company's main source of income is "Real Estate Income" and "Real estate financing income" which consists of 96.7% of net revenues. In addition, the company generates marginal income from "Investment Income".
iii. Net Profit remained stable during the years.

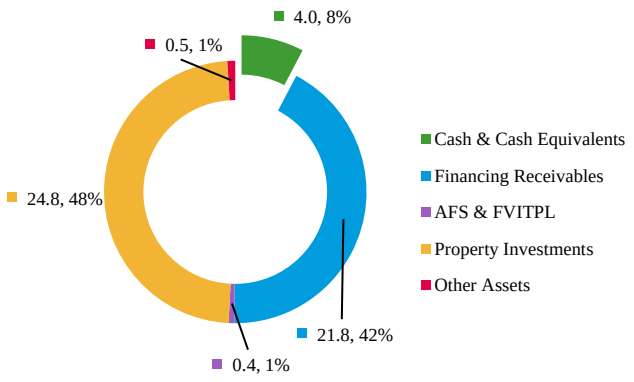
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	-	-	-	5.4%	5.8%	TCI / AA
Return on Equity	-	-	-	8.4%	8.6%	TCIS / AE
Solvency Ratios:						
Debt Ratio	-	-	-	26.2%	18.2%	Debt / TA
Debt to Equity Ratio	-	-	-	39.1%	26.3%	Debt / TE
Financial Leverage (x)	-	-	-	1.49	1.44	TA / TE
Interest Coverage (x)	-	-	-	4.77	6.85	EBIT / Int
CBK Ratios:						
Leverage Ratio	-	-	-	49.0%	44.1%	TL / TE
Shouldn't Exceed 200%	-	-	-	✓	✓	
Quick Ratio	-	-	-	28.9%	25.2%	Cash / TL
Should Exceed 10%	-	-	-	✓	✓	

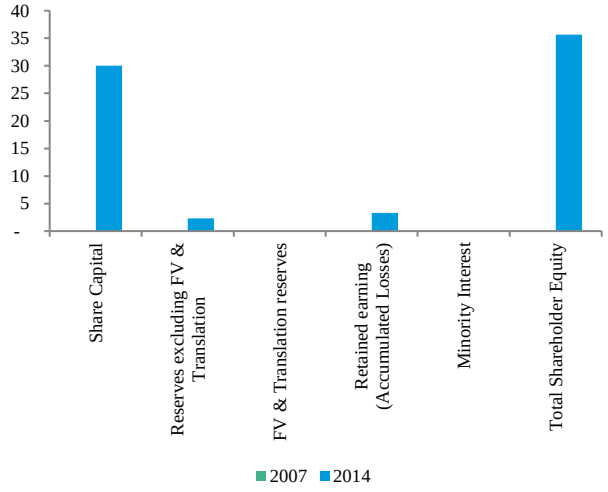
i. Profitability ratios have exhibited a stable trend over the years due to a stable profits over the years.
ii. Solvency ratios have exhibited a declining trend over the years as the company settled portion of its debt. Furthermore, the company made decent operating profits to cover its interest costs.
iii. As per CBK's guidelines, leverage ratio should not exceed 200%, & the company managed to keep it below 200% over the years indicating the healthy use of debt to finance its operations. On the other hand, quick ratio should exceed 10% & the company managed to achieve it over the years indicating the ability of the company to meet its obligations.

Figure 27: Company 27 – Key Financial Data

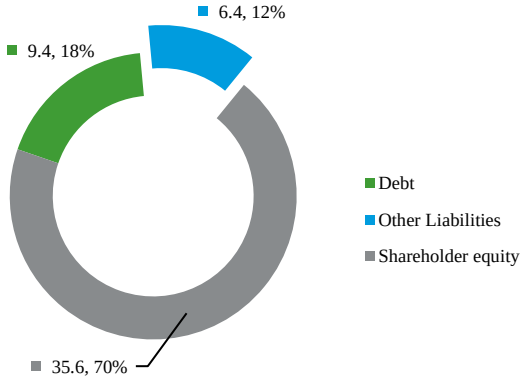
Asset Composition (KD Mn)



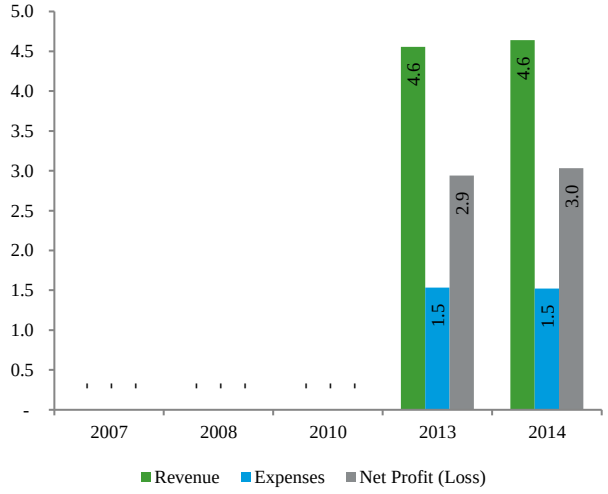
Equity Composition (KD Mn)



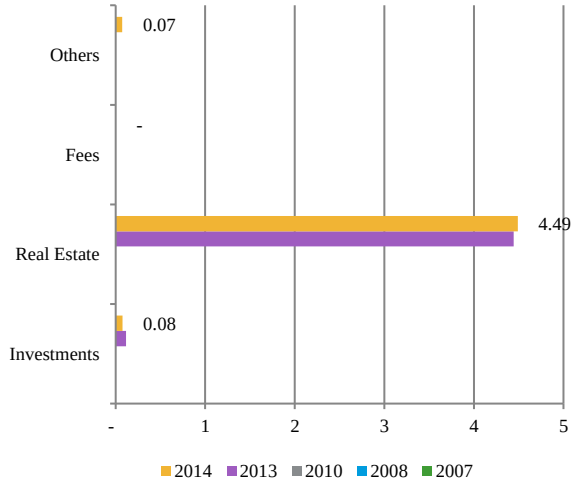
Capital Structure (KD Mn)



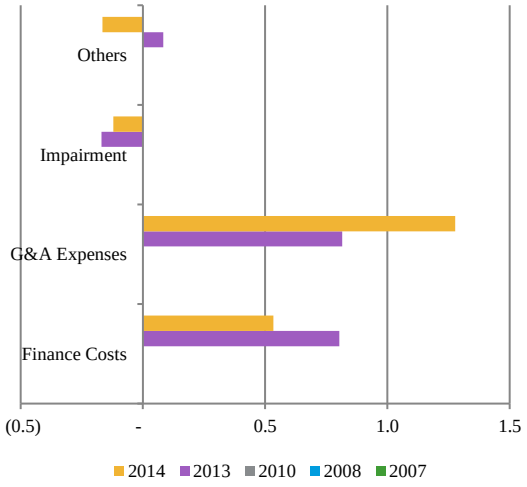
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



28. Company 28

Quick Facts	
Establishment Date	29th January 2005
Listing Date	24th April 2006
Number of Directors (Elected Directors)	6 (2)
Number of Subsidiaries	2
Number of Associates	3
Total Assets as at 31st December 2014	KD 78,831,988
Total Equity as at 31st December 2014	KD 37,165,314
Share Capital as at 31st December 2014	KD 40,706,523
Net Profit as at 31st December 2014	KD (13,602,336)
Total Shares Traded in 2014 (Total Trades)	904.1 Mn Shares (16,106 Trades)
Outstanding Shares	389.6 Mn Shares
Total Share Turnover (x)	2.32
Free-Float Share Turnover (x)	3.81
Assets under Management in 2014 (in 2007)	KD 28.6 Mn (KD 56.0 Mn)

Balance Sheet Analysis:

Multiple restructuring attempts including capital raise & accumulated loss write-off, but still in distress.

Valuation of Investments in Associates and AFS & FVITPL seem overstated considering continuous negative returns.

Key highlights:

i. Total Assets decreased from KD 207.6 Mn in FY 2007 to KD 78.8 Mn in FY 2014 mainly because of a decrease of "Accounts Receivables", "Investment Properties" & "Cash & Cash Equivalents".

ii. Debt amounted to of KD 115.2 Mn in FY 2007. In the subsequent years, the company started settling its debt to reach KD 34.0 Mn in FY 2014.

iii. The entire debt matured as at 31st December 2014 & 2013 which wasn't renewed or paid. Legal disputes are in existence with all the creditors & the pledged assets were placed under executive confiscation. **Further, the company submitted for protection to a specialized court as per Law No. 2 for the year 2009 (Financial Stability Law) along with a restructuring plan.**

iv. Shareholders' Equity dropped from KD 56.0 Mn in FY 2007 to KD 37.2 Mn in FY 2014 mainly due to huge decrease of "Retained Earnings" from KD 17.9 Mn in FY 2007 to KD 14.0 Mn in FY 2014.

v. "Accumulated Losses" written-off by KD 26.3 Mn, & yet is still KD (14) Mn.

Income Statement Analysis:

Continuous losses indicating 'non-viability' of operations.

Fee yield of 2.06%.

Major reduction in G&A expenses.

Finance cost not provided in FY 2013 and FY 2014 on KD 34 Mn debt, as under litigation.

Key Highlights:

i. Revenues declined from KD 33.5 Mn in FY 2007 to KD (3.3) Mn in FY 2014.
ii. The company has been experiencing Net Losses since FY 2009. The only sustainable income for the company is "Real Estate Income" from rentals.
iii. "Going Concern" of the company is in doubt, considering yearly losses and debt due for payment and under litigation..
iv. Finance costs are nil in FY 2013 & 2014 as debt has matured, with the company facing issues with the creditors.
v. Major impairment witnessed in FY 2014 of KD 10.5 Mn. In FY 2008, impairment was KD 6.1 Mn.
vi. Net Profit/(loss) deteriorated from KD 22.1 Mn in FY 2007 to KD 7.0 Mn in FY 2008 & stood at KD (13.6) Mn in FY 2014.

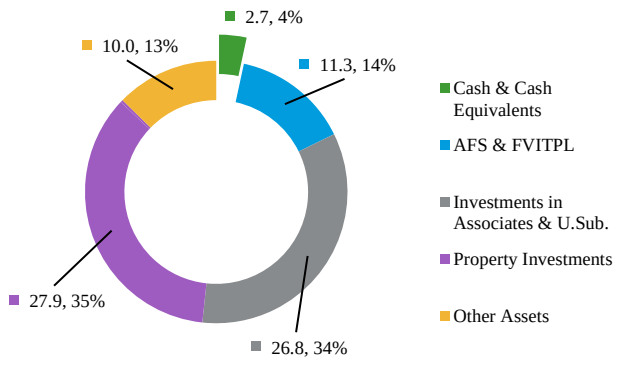
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	16.3%	2.9%	(8.1%)	(9.6%)	(12.6%)	TCI / AA
Return on Equity	62.5%	(0.1%)	(15.6%)	(25.2%)	(36.0%)	TCIS / AE
Solvency Ratios:						
Debt Ratio	55.5%	38.3%	42.7%	43.4%	43.1%	Debt / TA
Debt to Equity Ratio	205.6%	76.5%	87.1%	99.3%	91.5%	Debt / TE
Financial Leverage (x)	3.70	2.00	2.04	2.29	2.12	TA / TE
Interest Coverage (x)	4.41	2.08	(2.21)	-	-	EBIT / Int
CBK Ratios:						
Leverage Ratio	270.4%	99.8%	103.7%	128.6%	112.1%	TL / TE
Shouldn't Exceed 200%	✗	✓	✓	✓	✓	
Quick Ratio	16.0%	1.1%	0.8%	4.2%	6.4%	Cash / TL
Should Exceed 10%	✓	✗	✗	✗	✗	

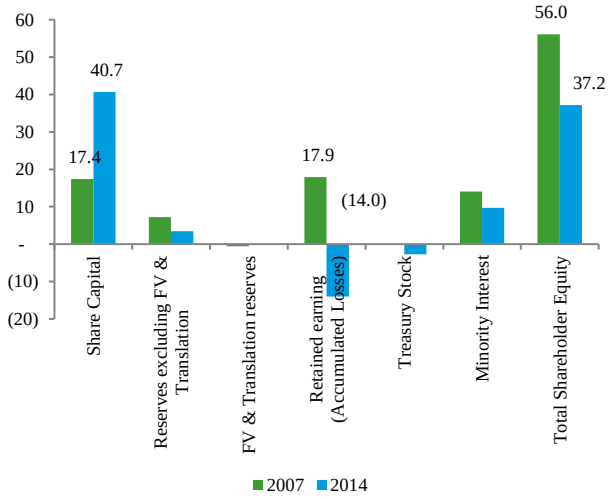
i. The company is in default of obligations.
ii. Profitability ratios have been negative since FY 2010 as the company have been experiencing losses since then.
iii. Solvency in question, as the debt matured & the company did not settle it & there are legal disputes with the lenders. The company is in trouble as they don't have liquidity. Further, finance costs for the last two years **were nil** as the debt matured and is under litigation.

Figure 28: Company 28 – Key Financial Data

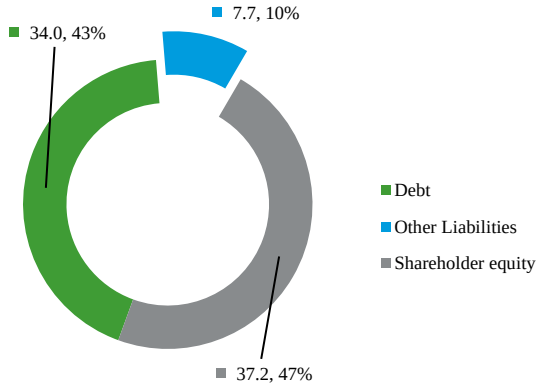
Asset Composition (KD Mn)



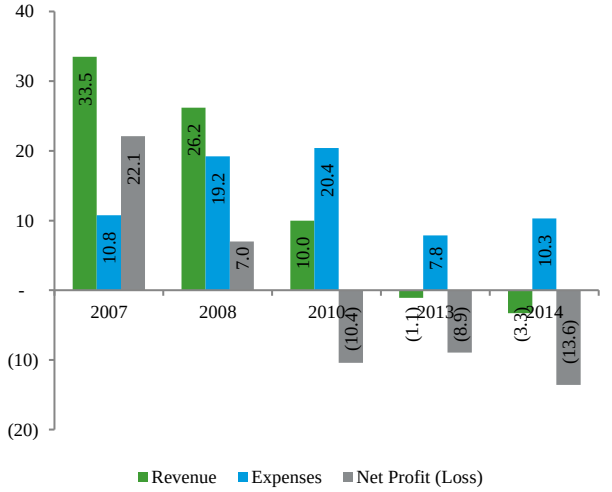
Equity Composition (KD Mn)



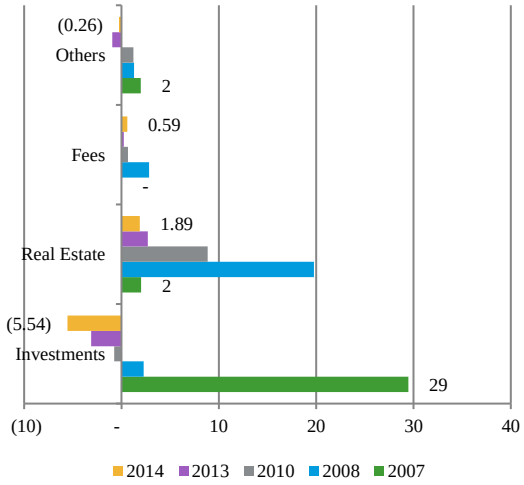
Capital Structure (KD Mn)



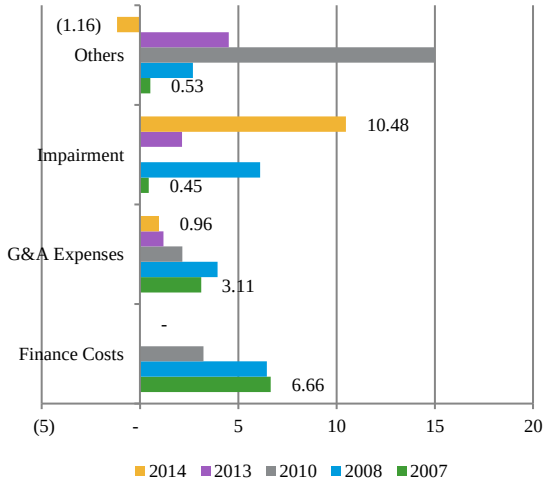
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



29. Company 29

Quick Facts	
Establishment Date	8th September 1999
Listing Date	2nd June 2003
Number of Directors (Elected Directors)	8 (5)
Number of Subsidiaries	3
Number of Associates	0
Total Assets as at 31st December 2014	KD 20,969,798
Total Equity as at 31st December 2014	KD 19,829,268
Share Capital as at 31st December 2014	KD 18,870,504
Net Profit as at 31st December 2014	KD 252,090
Total Shares Traded in 2014 (Total Trades)	208.9 Mn Shares (4,754 Trades)
Outstanding Shares	188.7 Mn Shares
Total Share Turnover (x)	1.11
Free-Float Share Turnover (x)	1.67
Assets under Management in 2014 (in 2007)	KD 17.4 Mn (KD 1.2 Mn)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 61.3 Mn in FY 2007 to KD 21.0 Mn in FY 2014 mainly because of a decrease of "Investment Assets" & "Accounts Receivables".
ii. The company has been facing issues with collecting "Financing Receivables" from the borrowers over the years. In FY 2014, the company came to an agreement with some borrowers to settle an original amount of KD 4.2 Mn by collecting KD 0.9 Mn only, but the agreement was fulfilled by KD 0.4 Mn.
iii. Debt amounted to of KD 18.5 Mn in FY 2007 & was settled by end of FY 2012.
iv. Shareholders' Equity dropped from KD 40.8 Mn in FY 2007 to KD 19.8 Mn in FY 2014 mainly due to huge decrease of "Retained Earnings" from KD 5.8 Mn in FY 2007 to KD (15.9) Mn in FY 2010.
v. "Accumulated Losses" were written-off by KD 15.9 Mn in FY 2011 against "Share Capital".

Income Statement Analysis:

Key Highlights:

Fee yield of 0.34%.

Real estate yield of 6.34%.

Major reduction in G&A expenses.

i. Revenues declined from KD 12.1 Mn in FY 2007 to KD 1.6 Mn in FY 2014.
ii. The company's only stream of income nowadays is "Real Estate Income" from rentals while "Investment Income" & "Financing Income" have been diminishing over the years & have been very low.
iii. In FY 2014, the company would have faced Net Loss if not for the agreement with some borrowers to settle receivables originally amounted KD 4.2 Mn for KD 0.9 Mn & applied a "Reversal of Provision for Financing Receivables" of KD 0.9 Mn.
iv. Major impairment witnessed in FY 2008 of KD 10.4 Mn.
v. Net Profit deteriorated from KD 7.9 Mn in FY 2007 to KD (18.1) Mn in FY 2008 & it stood at KD 0.3 Mn in FY 2014.

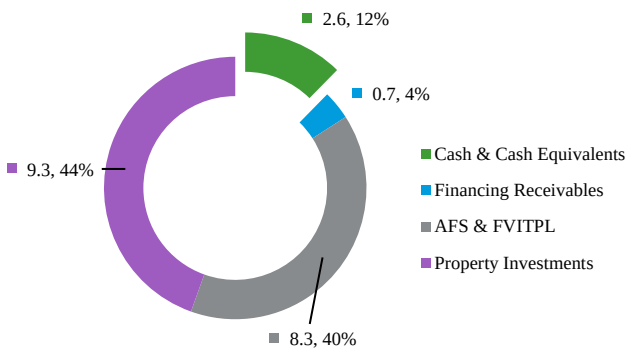
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	12.2%	(38.3%)	(2.5%)	2.2%	(0.2%)	TCI / AA
Return on Equity	21.0%	(56.8%)	(3.3%)	2.4%	(0.3%)	TCIS / AE
Solvency Ratios:						
Debt Ratio	30.2%	26.6%	18.7%	0.0%	0.0%	Debt / TA
Debt to Equity Ratio	45.4%	38.1%	24.5%	0.0%	0.0%	Debt / TE
Financial Leverage (x)	1.50	1.43	1.31	1.06	1.06	TA / TE
Interest Coverage (x)	4.90	(15.58)	(0.70)	15.16	-	EBIT / Int
CBK Ratios:						
Leverage Ratio	50.3%	43.3%	31.1%	6.0%	5.8%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	8.1%	5.7%	29.6%	210.5%	227.0%	Cash / TL
Should Exceed 10%	✗	✗	✓	✓	✓	

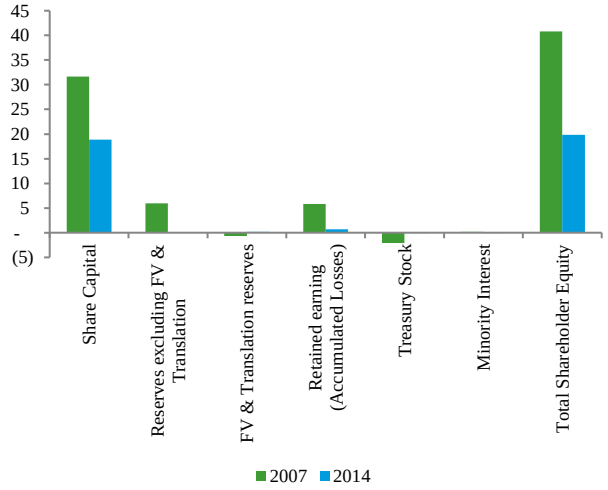
i. Liquidity has not been an issue for the company throughout the years & the company had enough resources to meet its short term obligations as well as to take on debt to an extent where current ratio won't fall below 1.
ii. Profitability ratios have been declining till FY 2010. In FY 2013, the profitability ratios turned from negative to positive & increased in FY 2014 as net profit improved from FY 2013 to FY 2014.
iii. Solvency ratios improved throughout the years & in FY 2013 as the company settled all of its debt, the ratios were converted to 0%.

Figure 29: Company 29 – Key Financial Data

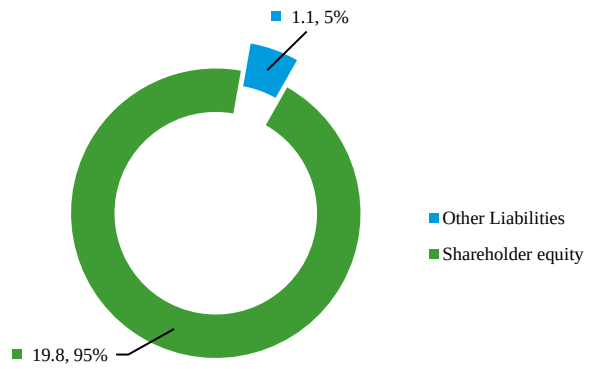
Asset Composition (KD Mn)



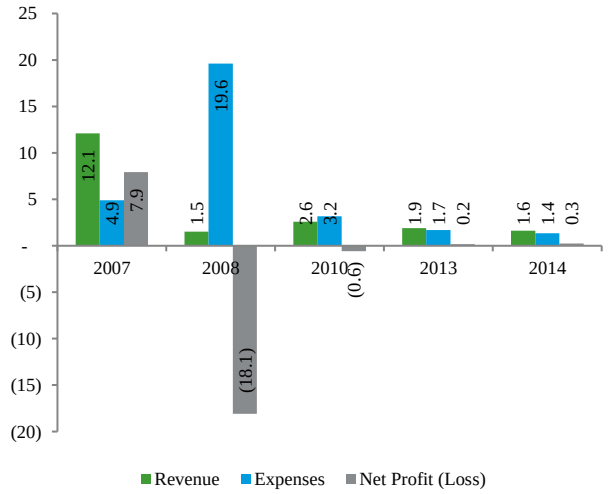
Equity Composition (KD Mn)



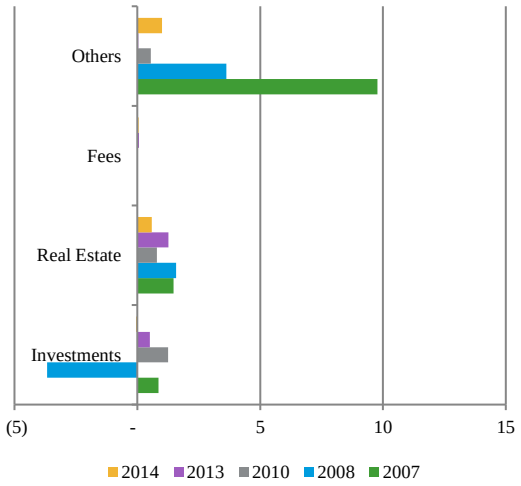
Capital Structure (KD Mn)



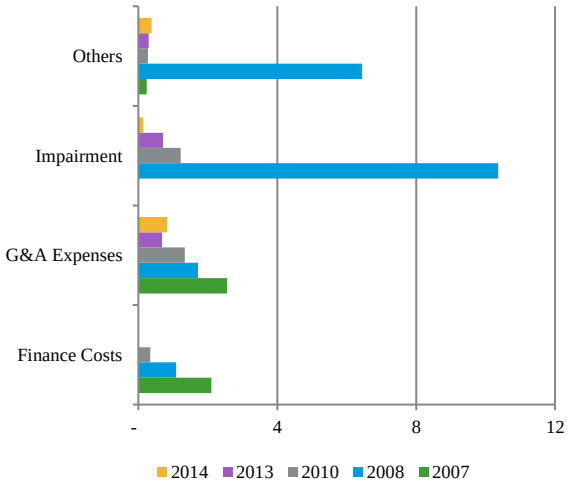
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



30. Company 30

Quick Facts	
Establishment Date	23rd October 2005
Listing Date	24th March 2010
Number of Directors (Elected Directors)	8 (1)
Number of Subsidiaries	3
Number of Associates	1
Total Assets as at 31st December 2014	KD 19,110,560
Total Equity as at 31st December 2014	KD 18,608,124
Share Capital as at 31st December 2014	KD 18,055,125
Net Profit as at 31st December 2014	KD 412,110
Total Shares Traded in 2014 (Total Trades)	126.5 Mn Shares (5,234 Trades)
Outstanding Shares	180.6 Mn Shares
Total Share Turnover (x)	0.70
Free-Float Share Turnover (x)	1.26
Assets under Management in 2014 (in 2007)	KD 2.5 Mn (KD 14.2 Mn)

Balance Sheet Analysis:

Other assets include mainly trade receivables, goodwill & intangibles associated with NCM acquisition.

Quoted investment in associate with market value close to carrying value.

AFS & FVITPL include unquoted securities in UAE (mix use RE development) & USA.

Key highlights:

i. Total Assets decreased from KD 26.8 Mn in FY 2007 to KD 19.1 Mn in FY 2014 mainly because of a decrease of "Investments in Associates".
ii. In FY 2014, the company acquired 51% of Noor Capital Markets for Financial Brokerage Company which is classified as a subsidiary.
iii. Debt amounted to of KD 0.8 Mn in FY 2007. The company is debt-free since FY 2008.
iv. Shareholders' Equity declined slightly from KD 19.5 Mn in FY 2007 to KD 18.6 Mn in FY 2014, although "Retained Earnings" decreased from KD 4.3 Mn in FY 2007 to KD (4.4) Mn in FY 2014.

Income Statement Analysis:

Other income includes trading & brokerage income.

Acquisition of Noor Capital in FY 2014.

Increase in staff costs probably due to consolidation of Noor Capital.

Increase in marketing & distribution probably due to consolidation of Noor Capital.

However parent company shareholders made a net loss of KD 0.4 Mn, which worsened from the previous year.

Key Highlights:

i. Revenues declined from KD 6.0 Mn in FY 2007 to KD 3.5 Mn in FY 2014.
ii. The company gradually withdrew from "Investment Income" & "Fees Income" generating activities & is most probably going to focus on "Trading & Brokerage Income" which is a new source of income through acquisition of a subsidiary in FY 2014.
iii. In FY 2013, the company produced a new form of income from its subsidiary (Divonne Universal for Sweets & Patisserie) as "Food & Beverage Income".
iv. "G&A Expenses" has increased radically from KD 0.6 Mn in FY 2013 to KD 2.4 Mn in FY 2014 due to an increase in staff costs.
v. Net Profit deteriorated from KD 3.7 Mn in FY 2007 to KD 0.4 Mn in FY 2014. The company is shifting towards new sources of income & is dependent on its shareholders to operate its operations.

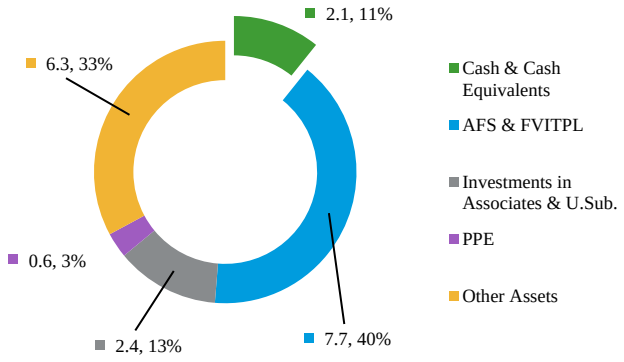
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	14.8%	6.0%	(27.5%)	(2.3%)	2.1%	TCI / AA
Return on Equity	21.0%	7.3%	(28.2%)	(2.3%)	(3.2%)	TCIS / AE
Solvency Ratios:						
Debt Ratio	2.8%	0.0%	0.0%	0.0%	0.0%	Debt / TA
Debt to Equity Ratio	3.8%	0.0%	0.0%	0.0%	0.0%	Debt / TE
Financial Leverage (x)	1.37	1.10	1.04	1.01	1.03	TA / TE
Interest Coverage (x)	24.27	11.14	-	-	-	EBIT / Int
CBK Ratios:						
Leverage Ratio	37.1%	9.5%	1.6%	1.2%	2.7%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	57.0%	65.7%	127.1%	3342.6%	409.8%	Cash / TL
Should Exceed 10%	✓	✓	✓	✓	✓	

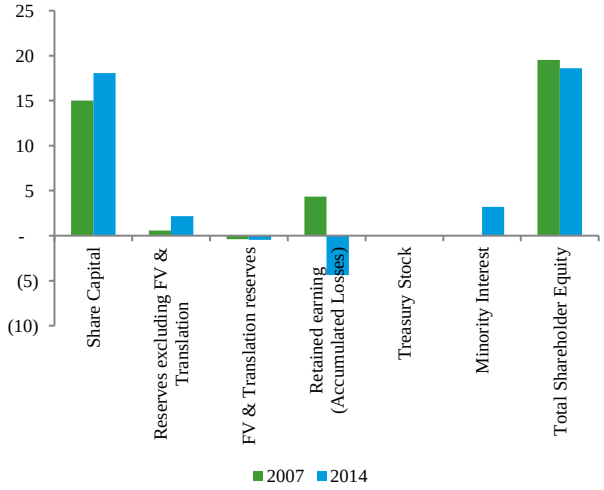
i. Profitability ratios have been declining since FY 2008 & been negative since FY 2010 till FY 2013 as the company was making losses. In FY 2014, the company's profitability ratios improved as the company made profits after 4 years. However those profits are not attributable to the parent shareholders.
ii. Solvency ratios have been 0% since the company settled all of its debt in FY 2008. The company does not depend on debt to finance its operations.

Figure 30: Company 30 – Key Financial Data

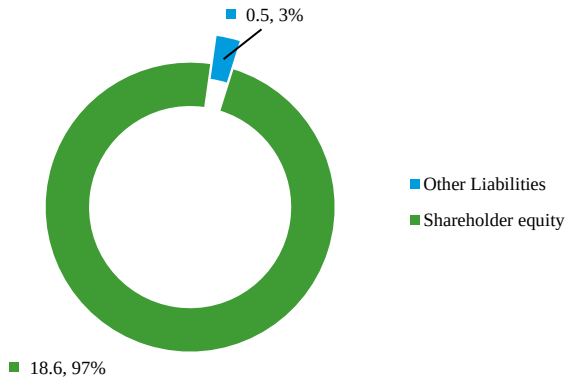
Asset Composition (KD Mn)



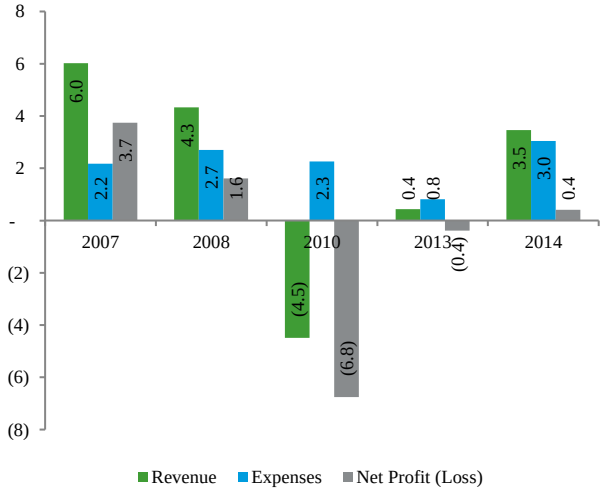
Equity Composition (KD Mn)



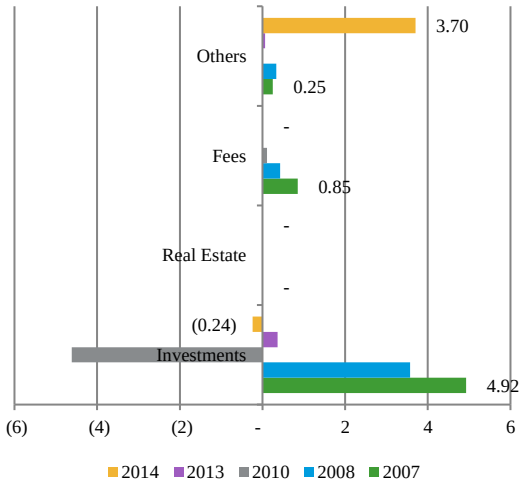
Capital Structure (KD Mn)



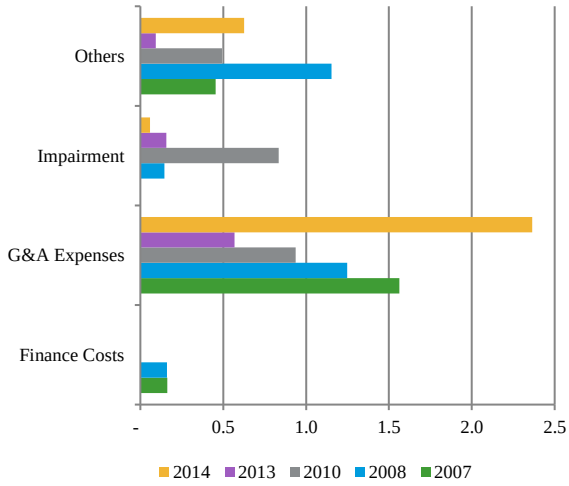
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



31. Company 31

Quick Facts	
Establishment Date	9th August 1998
Listing Date	22nd May 2002
Number of Directors (Elected Directors)	6 (5)
Number of Subsidiaries	5
Number of Associates	8
Total Assets as at 31st December 2014	KD 51,389,769
Total Equity as at 31st December 2014	KD 14,726,942
Share Capital as at 31st December 2014	KD 16,420,244
Net Profit as at 31st December 2014	KD (1,670,000)
Total Shares Traded in 2014 (Total Trades)	683.5 Mn Shares (15,037 Trades)
Outstanding Shares	156.4 Mn Shares
Total Share Turnover (x)	4.37
Free-Float Share Turnover (x)	5.46
Assets under Management in 2014 (in 2007)	KD 40.8 Mn (KD 83.4 Mn)

Banks hold 20% of capital.

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 103.3 Mn in FY 2007 to KD 51.4 Mn in FY 2014 mainly because of a decrease of "Investment Assets" & "Financing Receivables".

ii. "Investments in Associates" appears to be overstated & are generating a return of only 3.5%. KD 0.6 Mn received as dividends.

iii. "Investment Available for Sale" generates insignificant income while Investment Properties are losing value & are not generating rentals.

iv. Debt amounted to of KD 26.1 Mn in FY 2007 & was increased in FY 2009 to KD 60.1 Mn. In the subsequent years, the company started settling its debt to reach KD 35.6 Mn in FY 2014.

v. Share capital and reserves used to write off accumulated losses of KD 28.5 Mn. Overall KD 58 Mn of shareholder value has been wiped off since FY 2007. Equity is subject to further declines due to overstated assets & high expense structure.

Investment in associates includes quoted associates with a market value of KD 9.9 Mn carried at KD 17.43 Mn.

Income Statement Analysis:

Key Highlights:

Fee yield of 0.69%.

Major reduction in G&A expenses.

i. Revenues declined from KD 19.8 Mn in FY 2007 to KD 1.3 Mn in FY 2014.
ii. The company has been making Net Losses since FY 2009 as its revenues have not been consistent over the years. Further, the company is not generating enough revenues to cover its expenses.
iii. The "Finance Costs" of the company is solely more than the company's generated revenues. The company needs to take the necessary measurements to enhance its operations, otherwise the "Going Concern" of the company is questioned.
iv. Major impairment witnessed in FY 2007 & FY 2008 of KD 2.8 Mn & KD 2.5 Mn respectively.
v. Net Profit deteriorated from KD 14.6 Mn in FY 2007 to KD 1.8 Mn in FY 2008 & declined to become Net Losses of KD (1.7) Mn in FY 2014. Loss making for 6 years in a row.

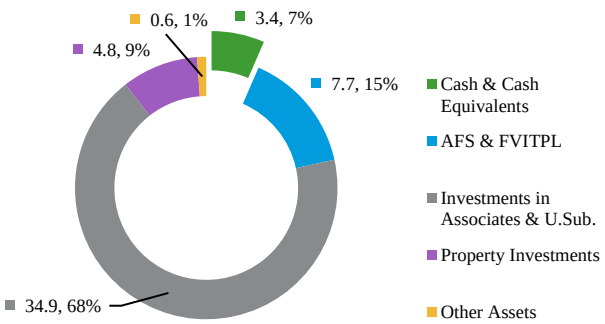
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	14.8%	1.6%	(19.0%)	(3.0%)	(3.5%)	TCI / AA
Return on Equity	20.5%	2.7%	(53.4%)	(10.0%)	(12.1%)	TCIS / AE
Solvency Ratios:						
Debt Ratio	25.3%	44.7%	67.5%	68.9%	69.3%	Debt / TA
Debt to Equity Ratio	36.2%	85.5%	227.1%	236.0%	242.0%	Debt / TE
Financial Leverage (x)	1.43	1.91	3.36	3.42	3.49	TA / TE
Interest Coverage (x)	7.78	1.65	(4.91)	(0.08)	0.00	EBIT / Int
CBK Ratios:						
Leverage Ratio	43.0%	91.2%	236.3%	242.4%	249.0%	TL / TE
Shouldn't Exceed 200%	✓	✓	✗	✗	✗	
Quick Ratio	10.4%	6.0%	5.4%	13.4%	9.1%	Cash / TL
Should Exceed 10%	✓	✗	✗	✓	✗	

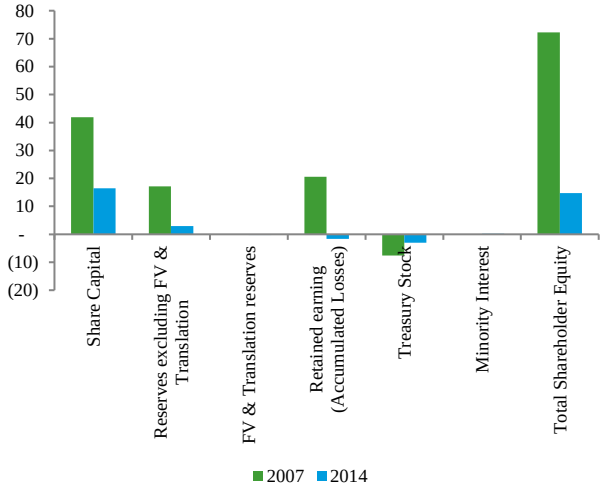
i. Profitability ratios have been declining over the years & in FY 2010 the ratios turned negative as the company has been making losses.
ii. Solvency ratios have exhibited worsening trend indicating the company's dependence on debt. The interest coverage has been declining and is currently nil, as the company made losses over the years & won't be able to settle its interest costs.
iii. As per CBK's principles, leverage ratio should not exceed 200% but in FY 2010 the company exceeded the 200% indicating the company's increased dependence on debt. On the other hand, the quick ratio should exceed 10% but the company only achieved it in FY 2013 indicating that the company will face difficulties to meet its obligations.

Figure 31: Company 31 – Key Financial Data

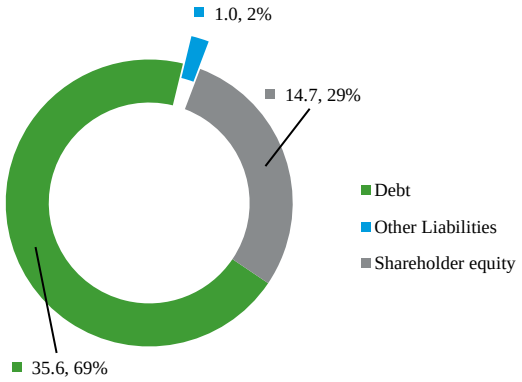
Asset Composition (KD Mn)



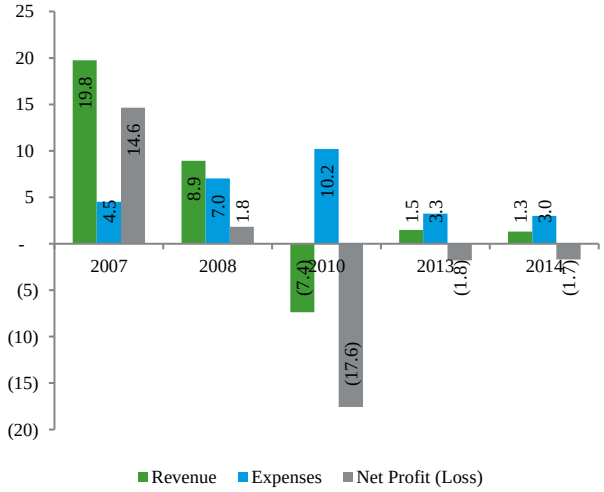
Equity Composition (KD Mn)



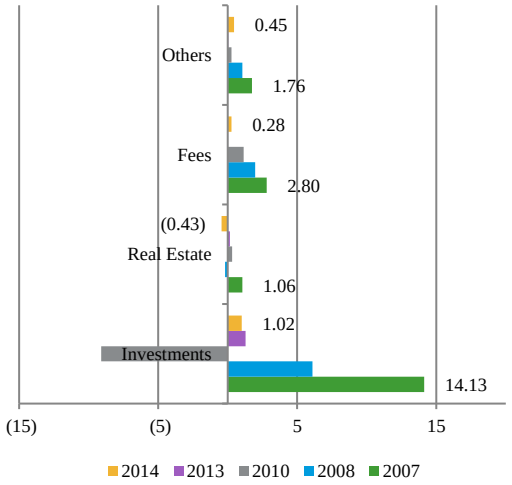
Capital Structure (KD Mn)



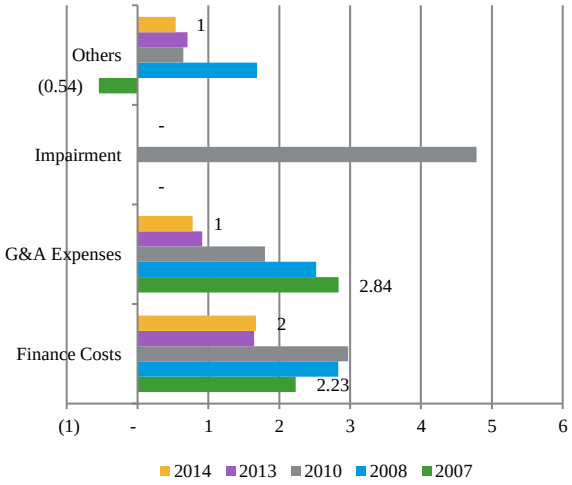
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



32. Company 32

Quick Facts	
Establishment Date	22nd February 2004
Listing Date	7th December 2009
Number of Directors (Elected Directors)	7 (6)
Number of Subsidiaries	4
Number of Associates	0
Total Assets as at 31st December 2014	KD 24,177,614
Total Equity as at 31st December 2014	KD 22,151,166
Share Capital as at 31st December 2014	KD 20,000,000
Net Profit as at 31st December 2014	KD 249,185
Total Shares Traded in 2014 (Total Trades)	60.5 Mn Shares (2,497 Trades)
Outstanding Shares	195.3 Mn Shares
Total Share Turnover (x)	0.31
Free-Float Share Turnover (x)	0.59
Assets under Management in 2014 (in 2007)	N/A (N/A)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 36.7 Mn in FY 2007 to KD 24.2 Mn in FY 2014 mainly because of a decrease of "Financing Receivables" & "Investment Assets".
ii. "Investment Properties" have been increasing over the years as additions are being added to it.
iii. Debt amounted to of KD 9.9 Mn in FY 2007 & was increased in FY 2008 to KD 14.3 Mn. In the subsequent years, the company started settling the debt to reach KD 1.1 Mn in FY 2014.
iv. The company regularly has been settling its debt each year.
v. Shareholders' Equity dropped from KD 26.4 Mn in FY 2007 to KD 22.2 Mn in FY 2014 mainly due to huge decrease of "Retained Earnings" from KD 2.8 Mn in FY 2007 to KD 0.3 Mn in FY 2014.

Income Statement Analysis:

Key Highlights:

i. Revenues declined from KD 5.1 Mn in FY 2007 to KD 1.4 Mn in FY 2014.
ii. The company's sources of income are "Investment Income", "Financing Income" & "Fees Income" but at a lower levels than FY 2007.
iii. In FY 2013, the company started generating income from "Rental Income" & it seems that it will be generating stable income in the future.
iv. Net Profit deteriorated from KD 2.8 Mn in FY 2007 to KD 1.2 Mn in FY 2008 & stood at KD 0.2 Mn in FY 2014.
v. The company's revenues are lower than ever & the company should be more active in the market in order to generate extra revenues to produce better profits.

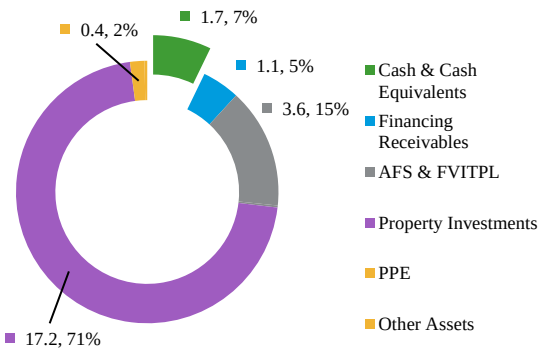
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	7.1%	3.2%	6.3%	8.4%	(0.3%)	TCI / AA
Return on Equity	11.1%	4.8%	9.8%	10.2%	(0.3%)	TCIS / AE
Solvency Ratios:						
Debt Ratio	26.9%	35.8%	29.7%	11.1%	4.6%	Debt / TA
Debt to Equity Ratio	37.4%	56.4%	44.0%	13.1%	5.0%	Debt / TE
Financial Leverage (x)	1.39	1.58	1.48	1.18	1.09	TA / TE
Interest Coverage (x)	3.17	2.57	3.43	25.10	3.80	EBIT / Int
CBK Ratios:						
Leverage Ratio	38.9%	57.5%	48.1%	17.5%	9.1%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	18.6%	19.8%	75.8%	71.3%	85.7%	Cash / TL
Should Exceed 10%	✓	✓	✓	✓	✓	

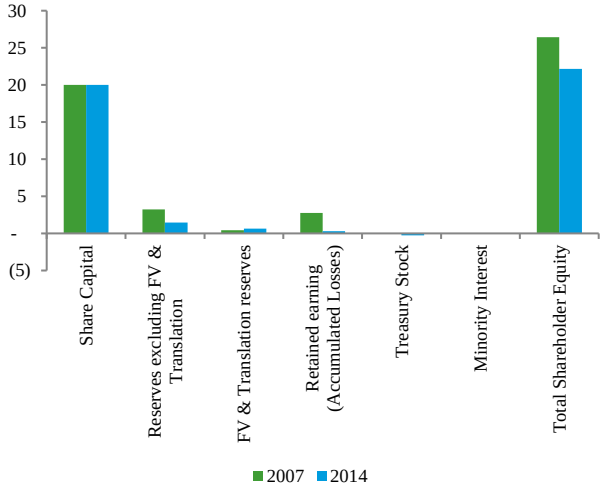
i. Liquidity has never been an issue for the company as it always had enough resources to meet its short term obligations.
ii. Profitability ratios have been declining since FY 2010 as profits have been declining. The company needs to generate more revenues through its operations in order to achieve better profits.
iii. Solvency ratios have exhibited a declining trend since FY 2008 as the company has been settling debt regularly.
iv. As per CBK's principles, leverage ratio should not exceed 200%, & the company managed to keep it below 200% over the years indicating the healthy use of debt to finance its operations. On the other hand, quick ratio should exceed 10% & the company managed to achieve it over the years indicating the ability of the company to meet its obligations.

Figure 32: Company 32 – Key Financial Data

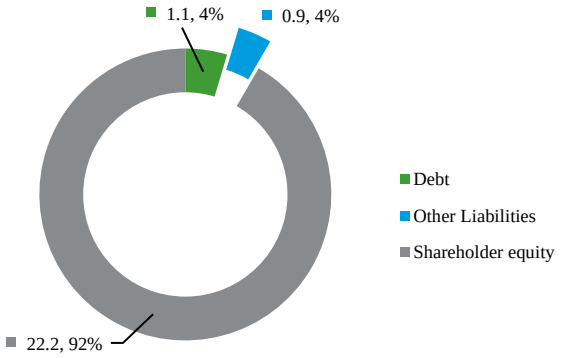
Asset Composition (KD Mn)



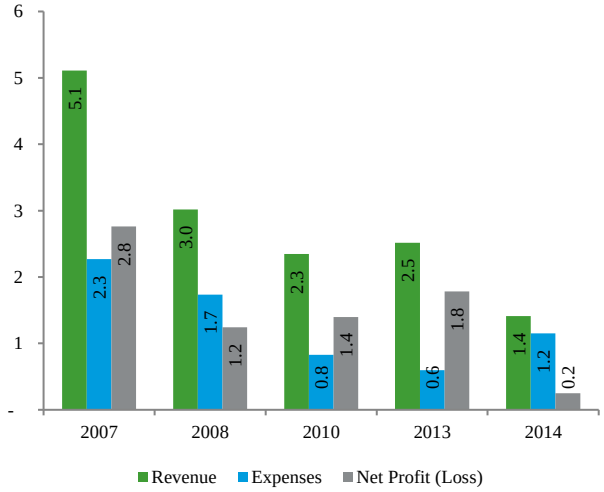
Equity Composition (KD Mn)



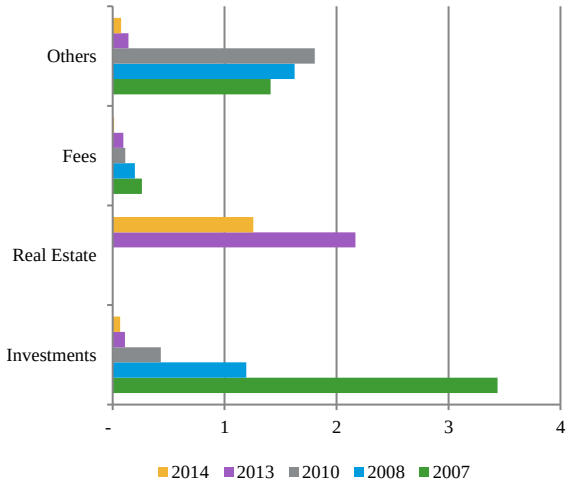
Capital Structure (KD Mn)



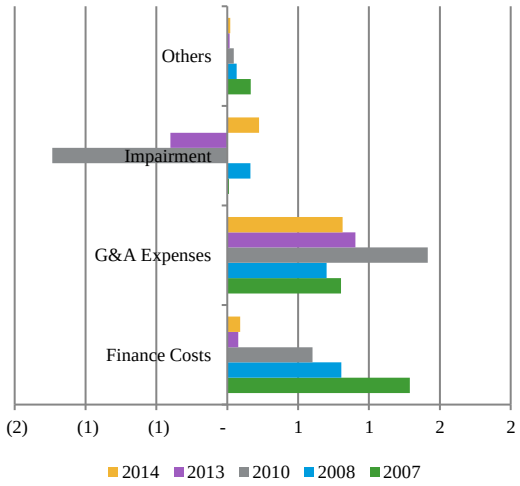
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



33. Company 33

Quick Facts	
Establishment Date	23rd November 1998
Listing Date	20th June 2005
Number of Directors (Elected Directors)	6 (2)
Number of Subsidiaries	8
Number of Associates	3
Total Assets as at 31st December 2014	KD 50,639,831
Total Equity as at 31st December 2014	KD 21,395,033
Share Capital as at 31st December 2014	KD 21,386,865
Net Profit as at 31st December 2014	KD (805,750)
Total Shares Traded in 2014 (Total Trades)	58.0 Mn Shares (4,156 Trades)
Outstanding Shares	207.0 Mn Shares
Total Share Turnover (x)	0.28
Free-Float Share Turnover (x)	1.14
Assets under Management in 2014 (in 2007)	KD 11.1 Mn (N/A)

Balance Sheet Analysis:

Key highlights:

High deterioration of shareholder value.

i. Total Assets decreased from KD 170.8 Mn in FY 2007 to KD 50.6 Mn in FY 2014 mainly because of a decrease of "Accounts Receivables" & "Investments at Fair Value through Income Statement".
ii. Debt amounted to of KD 93.4 Mn in FY 2007 & decreased over the years as the company started settling the debt to reach KD 24.3 Mn in FY 2014.
iii. Shareholders' Equity dropped from KD 72.4 Mn in FY 2007 to KD 21.4 Mn in FY 2014 mainly due to heavy losses booked over the last few years. KD 51 Mn wiped off from shareholder equity.
iv. "Share Capital" & "Reserves excluding FV & Translation Reserves" have been decreased in FY 2012 to reduce the "Accumulated Losses" from KD (35.0 Mn) in FY 2011 to KD (6.5) Mn in FY 2012.
v. Debt restructuring to be considered considering the negative ROA & leverage position.

Income Statement Analysis:

Key Highlights:

Disproportionately high G&A expenses, increasing staff costs in spite of lower revenues.

i. Revenues declined from KD 21.6 Mn in FY 2007 to KD 4.0 Mn in FY 2014.
ii. The company has worsened after FY 2007 as their revenues declined in all areas since. The only reliable income that the company has is "Real Estate Income" in the form of rentals. Further, the company's expenses are not being controlled efficiently, specifically G&A.
iii. In FY 2013, the reported revenues were KD 8.9 Mn but it was due to "Reversal of Provision for Receivables of Financial, Properties & Service Investments" amounting to KD 7.2 Mn.
iv. Major impairment witnessed in FY 2008 of KD 3.4 Mn.
v. Net Profit deteriorated from KD 9.1 Mn in FY 2007 to KD (12.1) Mn in FY 2008 & stood at KD (0.8) Mn in FY 2014.
vi. The company is struggling & actions are required to improve it, as indicated by low revenue generation & high cost structure.

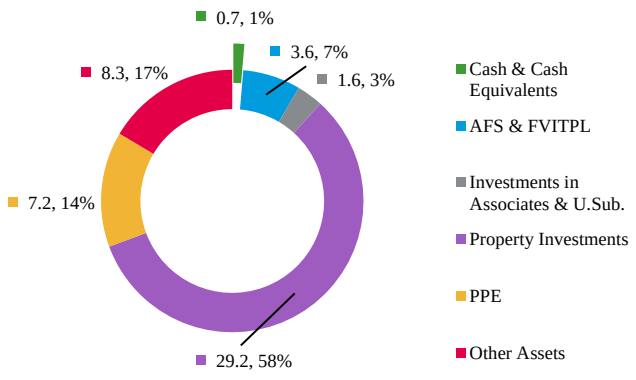
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	5.2%	(7.4%)	(16.2%)	7.1%	(1.5%)	TCI / AA
Return on Equity	13.1%	(18.7%)	(58.7%)	21.2%	(5.4%)	TCIS / AE
Solvency Ratios:						
Debt Ratio	54.7%	56.3%	67.2%	49.0%	48.0%	Debt / TA
Debt to Equity Ratio	128.9%	141.7%	280.5%	117.3%	113.7%	Debt / TE
Financial Leverage (x)	2.36	2.52	4.18	2.40	2.37	TA / TE
Interest Coverage (x)	2.11	(0.65)	(1.90)	4.67	0.12	EBIT / Int
CBK Ratios:						
Leverage Ratio	135.8%	151.7%	317.8%	139.7%	136.7%	TL / TE
Shouldn't Exceed 200%	✓	✓	✗	✓	✓	
Quick Ratio	3.2%	1.6%	4.8%	3.8%	2.3%	Cash / TL
Should Exceed 10%	✗	✗	✗	✗	✗	

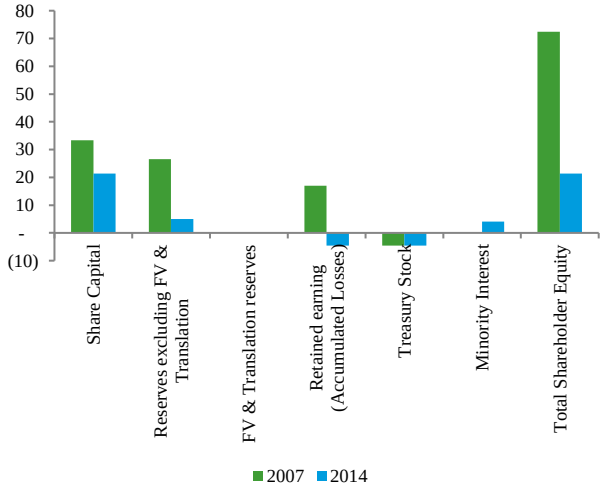
i. Profitability ratios have been declining over the years as net profit & total revenues have been declining & declined by 108.9% & 81.6% respectively in FY 2014 from FY 2007 levels. The company requires action to be taken to improve the company's position.
ii. Solvency ratios improved throughout the years as debt declined. Debt ratio & debt to equity ratio declined in return. However low revenues and profitability is pressurizing the interest coverage ratio.

Figure 33: Company 33 – Key Financial Data

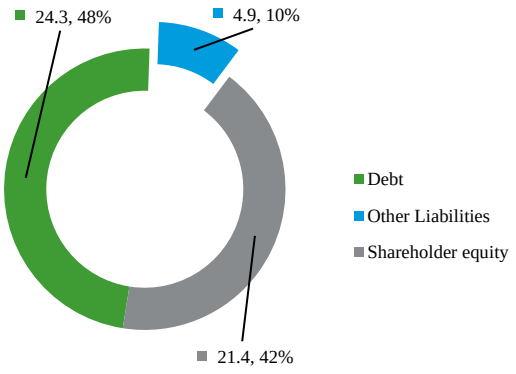
Asset Composition (KD Mn)



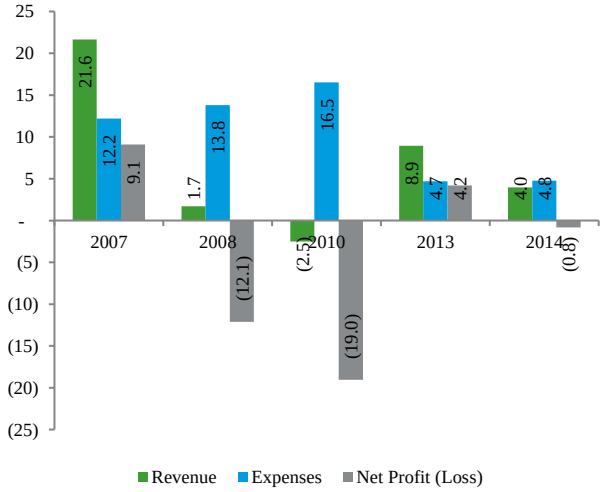
Equity Composition (KD Mn)



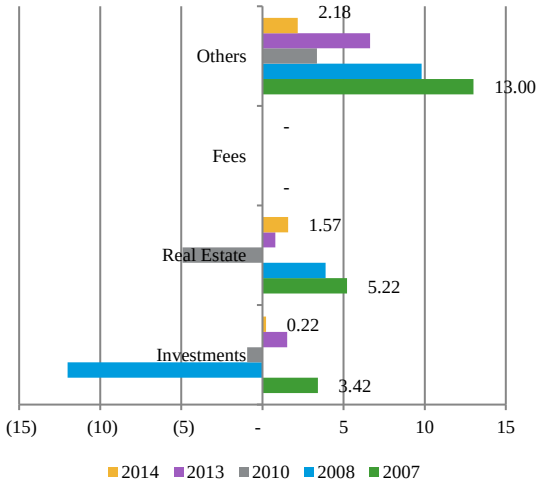
Capital Structure (KD Mn)



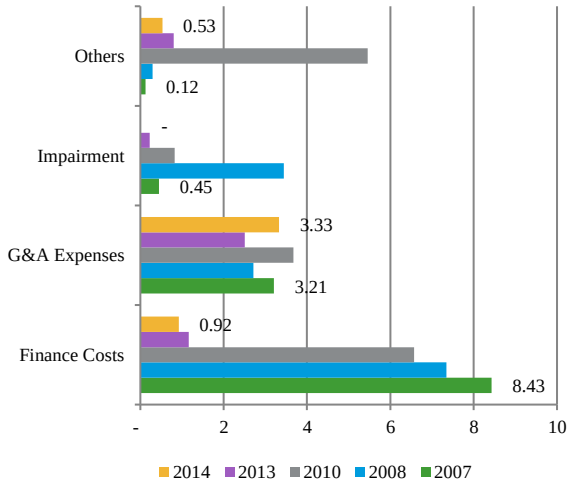
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



34. Company 34

Quick Facts	
Establishment Date	4th January 2006
Number of Directors (Elected Directors)	7 (N/A)
Number of Subsidiaries	10
Number of Associates	1
Total Assets as at 31st March 2014	KD 24,735,053
Total Equity as at 31st March 2014	KD 21,060,893
Share Capital as at 31st March 2014	KD 21,000,000
Net Profit as at 31st March 2014	KD 25,107
Assets under Management in 2014 (in 2007)	N/A (N/A)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 31.5 Mn in FY 2007 to KD 24.7 Mn in FY 2014 mainly because of a decrease of "Financing Receivables" & "Property Investments".
ii. "Investment Properties" valuation appears to be overstated, considering the low net real estate income yield.
iii. Debt amounted to of KD 13.4 Mn in FY 2008. In the subsequent years, the company started settling the debt to reach KD 1.8 Mn in FY 2014.
iv. Shareholders' Equity dropped from KD 31.2 Mn in FY 2007 to KD 21.1 Mn in FY 2014 mainly due to a decrease of "Share Capital" from KD 30.0 Mn in FY 2007 to KD 21.0 Mn in FY 2014.
v. In FY 2014, "Accumulated Losses" were written-off by KD 9.4 Mn against "Share Capital" & "Reserves excluding FV & Translation".

Income Statement Analysis:

Key Highlights:

i. Revenues declined from KD 2.9 Mn in FY 2007 to KD 0.6 Mn in FY 2010, but recovered to KD 2.8 Mn in FY 2014.
ii. The company generates income through "Vehicles Rentals", "Real Estate Income", "Fees Income" & "Investment Income".
iii. "G&A Expenses" have been increasing over the years & the company should control its expenses in order to achieve profitability.
iv. Major impairment witnessed in FY 2008 of KD 1.9 Mn.
v. Net Profit deteriorated from KD 1.2 Mn in FY 2007 to KD (2.1) Mn in FY 2010 & in FY 2014 the company broke even. However most of the revenues during the year from real estate fair value gains, which seems high considering the net real estate income yield.

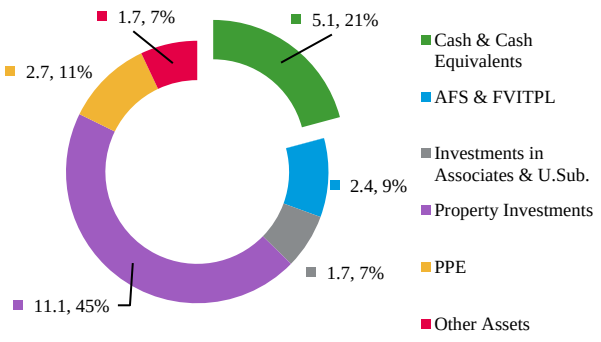
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	3.8%	1.5%	(6.1%)	(12.8%)	0.2%	TCI / AA
Return on Equity	3.9%	1.8%	(8.1%)	(15.0%)	0.3%	TCIS / AE
Solvency Ratios:						
Debt Ratio	0.0%	28.3%	18.1%	7.4%	7.2%	Debt / TA
Debt to Equity Ratio	0.0%	40.1%	23.0%	9.0%	8.5%	Debt / TE
Financial Leverage (x)	1.01	1.42	1.28	1.22	1.17	TA / TE
Interest Coverage (x)	56.04	2.45	(7.78)	(19.70)	1.19	EBIT / Int
CBK Ratios:						
Leverage Ratio	1.0%	41.9%	27.5%	22.0%	17.4%	TL / TE
Shouldn't Exceed 200%	✓	✓	✓	✓	✓	
Quick Ratio	4343.4%	94.7%	168.6%	100.0%	140.2%	Cash / TL
Should Exceed 10%	✓	✓	✓	✓	✓	

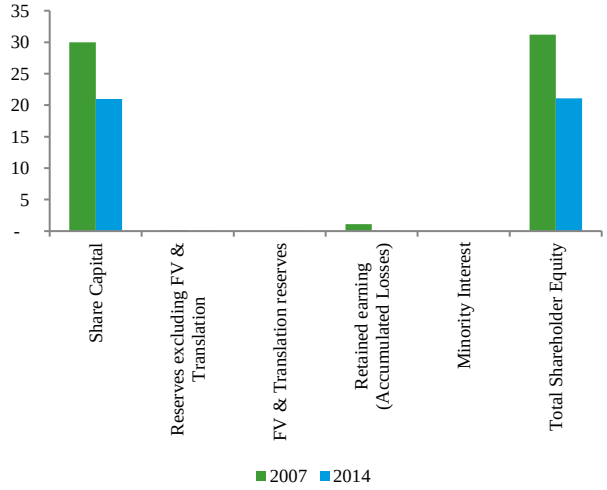
i. Profitability ratios have exhibited a declining trend between FY 2008 & 2013, but it increased in FY 2014 as the company achieved profitability. The company should control its G&A expenses as they increased over the years.
ii. Solvency ratios have exhibited a declining trend since FY 2010 as the company settled portion of its debt each year. Furthermore, in FY 2014, the company made enough operating profits to cover its interest costs.
iii. As per CBK's principles, leverage ratio should not exceed 200%, & the company managed to keep it below 200% over the years indicating the healthy use of debt to finance its operations. On the other hand, quick ratio should exceed 10% & the company managed to achieve it over the years indicating the ability of the company to meet its obligations.

Figure 34: Company 34 – Key Financial Data

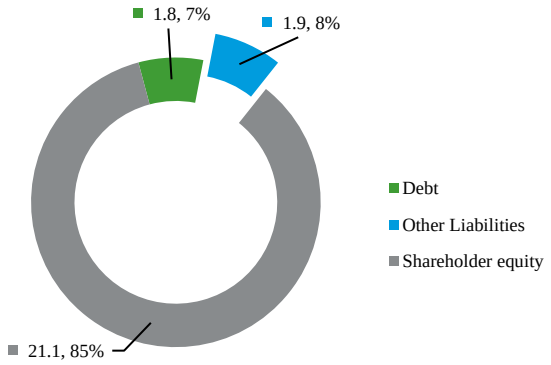
Asset Composition (KD Mn)



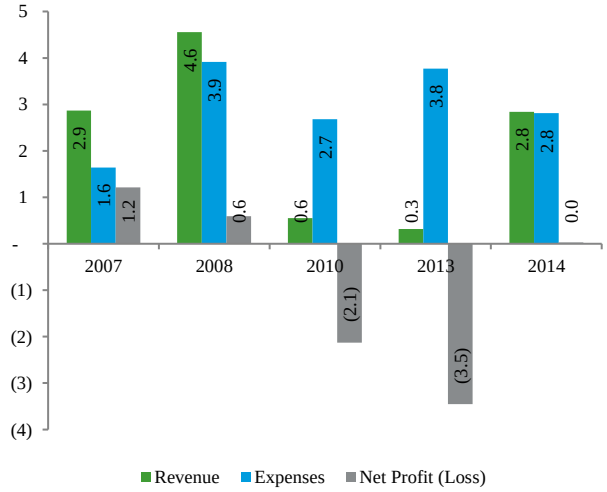
Equity Composition (KD Mn)



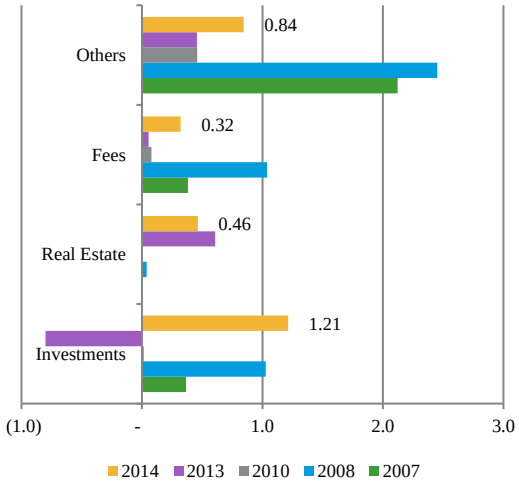
Capital Structure (KD Mn)



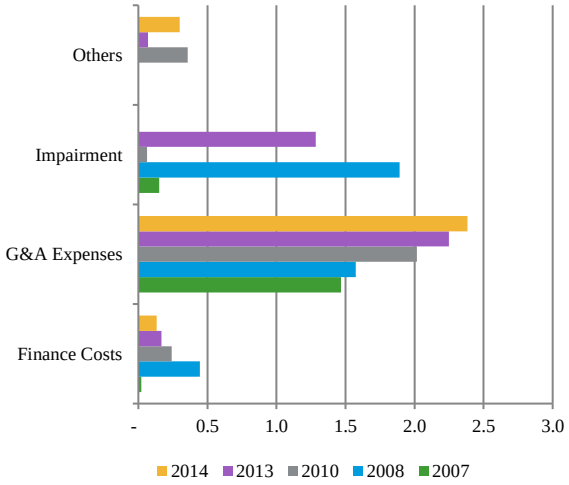
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



35. Company 35

Quick Facts	
Establishment Date	12th February 2002
Listing Date	16th May 2005
Number of Directors (Elected Directors)	6 (0)
Number of Subsidiaries	5
Number of Associates	3
Total Assets as at 31st December 2014	KD 49,304,334
Total Equity as at 31st December 2014	KD 14,481,582
Share Capital as at 31st December 2014	KD 29,812,216
Net Profit as at 31st December 2014	KD 684,268
Total Shares Traded in 2014 (Total Trades)	885.8 Mn Shares (18,844 Trades)
Outstanding Shares	293.1 Mn Shares
Total Share Turnover (x)	3.02
Free-Float Share Turnover (x)	6.26
Assets under Management in 2014 (in 2007)	N/A (N/A)

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 207.7 Mn in FY 2007 to KD 49.3 Mn in FY 2014 mainly because of a decrease of "Investment Assets", "Financing Receivables" & Investment Properties".
ii. Debt amounted to of KD 121.3 Mn in FY 2007 & was increased in FY 2008 to KD 179.9 Mn. In the subsequent years, the company started settling the debt to reach KD 15.8 Mn in FY 2014.
iii. In FY 2011, 2013 & 2014, "Investment Properties" were disposed/transferred to settle portion of the debt with the lenders.
iv. Shareholders' Equity dropped from KD 43.0 Mn in FY 2007 to KD 14.5 Mn in FY 2014 mainly due to huge decrease of "Retained Earnings" from KD 7.7 Mn in FY 2007 to KD (20.0) Mn in FY 2014.
v. In FY 2012, "Accumulated Losses" were written-off by KD 3.8 Mn against "Reserves excluding FV & Translation". In FY 2014, "Accumulated Losses" comprised of 67.0% of "Share Capital".

Income Statement Analysis:

Profits are a result of debt settlement gains & hence not yet stable.

Scope for reduction in G&A expenses.

Other income includes predominantly commercial services revenue, probably school.

Key Highlights:

i. Revenues declined from KD 20.9 Mn in FY 2007 to KD 6.2 Mn in FY 2014.
ii. The company generates income through "Investment Income", "Real Estate Income" & "Service Income". Further, the company generates income from "Financing Income" but its marginal.
iii. In the past two years, the company made "Net Gain on Implementation of the Restructuring Plan" of KD 16.2 Mn & KD 2.7 Mn in FY 2013 & 2014 respectively.
iv. Major impairment witnessed in FY 2008 of KD 2.0 Mn.
v. Net Profit deteriorated from KD 8.6 Mn in FY 2007 to KD 0.5 Mn in FY 2008 & stood at KD 0.7 Mn in FY 2014.

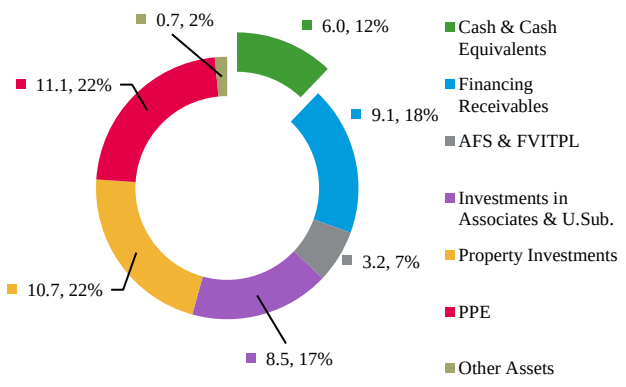
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	5.1%	(0.2%)	1.4%	11.0%	1.6%	TCI / AA
Return on Equity	22.5%	(1.4%)	3.4%	141.9%	6.2%	TCIS / AE
Solvency Ratios:						
Debt Ratio	58.4%	69.5%	76.2%	31.9%	31.9%	Debt / TA
Debt to Equity Ratio	282.0%	357.3%	394.8%	121.9%	108.8%	Debt / TE
Financial Leverage (x)	4.83	5.14	5.18	3.82	3.40	TA / TE
Interest Coverage (x)	2.02	1.04	1.17	3.33	2.07	EBIT / Int
CBK Ratios:						
Leverage Ratio	382.8%	414.0%	417.8%	282.3%	240.5%	TL / TE
Shouldn't Exceed 200%	✗	✗	✗	✗	✗	
Quick Ratio	1.2%	2.3%	0.5%	5.5%	17.2%	Cash / TL
Should Exceed 10%	✗	✗	✗	✗	✓	

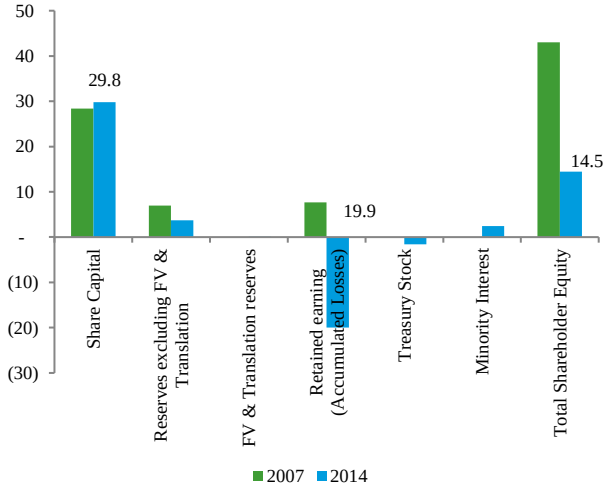
i. Liquidity has always been an issue for the company & the company doesn't have enough liquid assets to settle its short term obligations. The company settled its debt through disposing "Investment Properties" which is not considered as a current ratio.
ii. Profitability ratios have not been consistent over the years as the company's net profit was unstable. In FY 2014, the net profit declined from FY 2013 levels which led profitability ratios to worsen. Further, without the implementation of the restructuring plan by the company, the company would have made losses.
iii. Solvency ratios have exhibited an inclining trend till FY 2010. In FY 2013 & 2014, the ratios dropped as the company entered into a settlement agreement with its lenders & settled portion of its debt.
iv. As per CBK's principles, leverage ratio should not exceed 200% & the company did not manage to achieve that indicating the company's dependence on debt to finance its operations. On the other hand, the quick ratio should exceed 10%, but the company did not manage to keep it at those levels throughout the years, but it was able to achieve it in FY 2014 after settling portion of its debt through agreements.

Figure 35: Company 35 – Key Financial Data

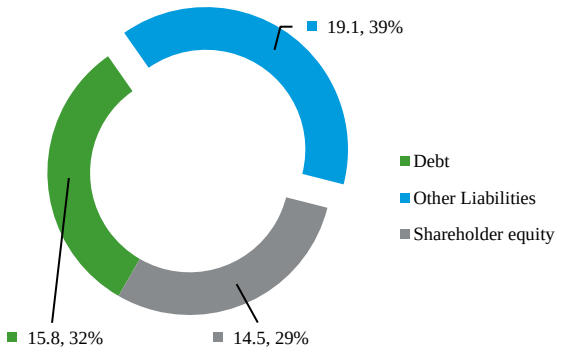
Asset Composition (KD Mn)



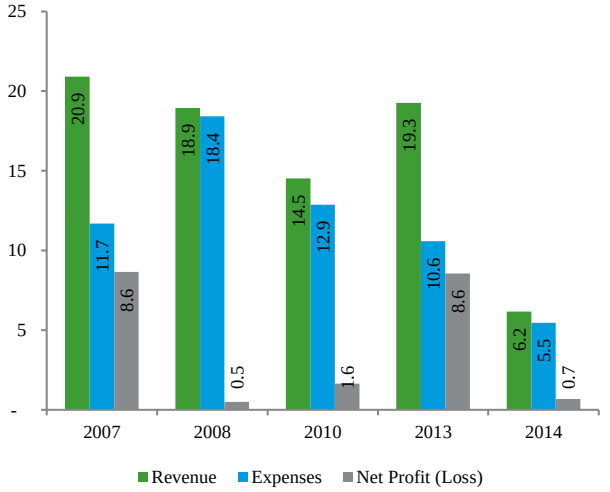
Equity Composition (KD Mn)



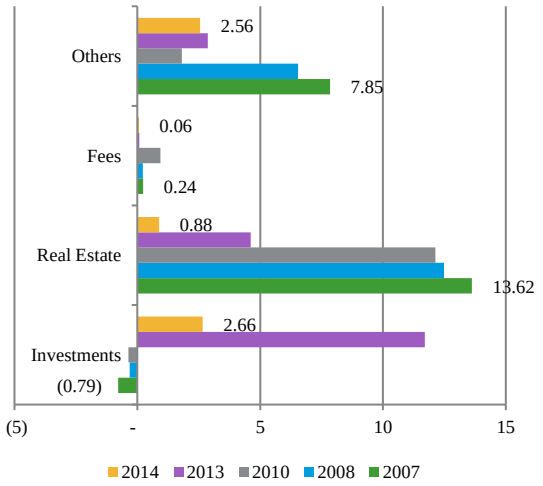
Capital Structure (KD Mn)



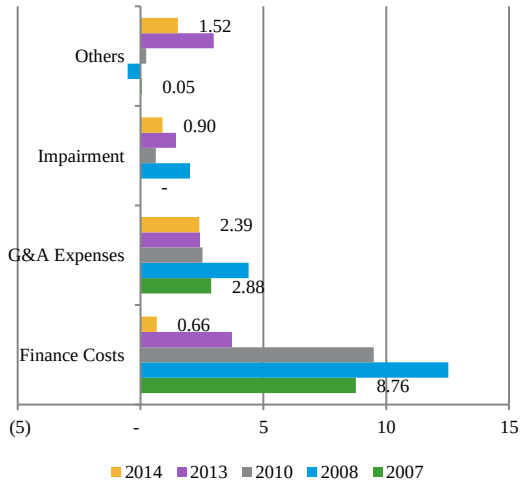
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



Expenses Composition (KD Mn)



36. GCC Owned Company

Quick Facts	
Establishment Date	15th November 1983
Number of Directors (Elected Directors)	12 (N/A)
Number of Subsidiaries	6
Number of Associates	21
Total Assets as at 31st December 2014	KD 1,516,075,240 ($ 5,186 Mn)
Total Equity as at 31st December 2014	KD 803,935,000 ($ 2,750 Mn)
Share Capital as at 31st December 2014	KD 613,914,000 ($2,100 Mn)
Net Profit as at 31st December 2014	KD 59,345,020 ($203 Mn)
Assets under Management in 2014 (in 2007)	N/A (KD 186.8 Mn)
Exchange Rate as at 31st December 2014	0.29234 KD/USD

Balance Sheet Analysis:

Key highlights:

i. Total Assets decreased from KD 2,682.2 Mn in FY 2007 to KD 1,516.1 Mn in FY 2014 mainly because of a decrease of "Financing Receivables".
ii. Debt amounted to of KD 532.1 Mn in FY 2007 & was increased to KD 605.4 Mn in FY 2008. In the subsequent years, the company started settling the debt to reach KD 416.0 Mn in FY 2014.
iii. Shareholders' Equity increased from KD 572.4 Mn in FY 2007 to KD 803.9 Mn in FY 2014 mainly due to a huge increase of "Share Capital" from KD 292.3 Mn in FY 2007 to KD 613.9 Mn in FY 2014.
iv. The first increase of "Share Capital" was in FY 2008 by KD 160.8 Mn & the second increase was in FY 2009 by another KD 160.8 Mn.

Income Statement Analysis:

Key Highlights:

Improving investment income.

Improving revenues & net profit.

i. Revenues declined from KD 228.3 Mn in FY 2007 to KD 115.2 Mn in FY 2014.
ii. The company main sources of income are "Investment Income" & "Financing Income" while "Fees Income" is minimal.
iii. Major impairment witnessed in FY 2008 of KD 280.1 Mn.
iv. "G&A Expenses" have increased in FY 2013 as compared to FY 2010 levels.
v. Net Profit deteriorated from KD 74.0 Mn in FY 2007 to KD (291.2) Mn in FY 2008 & stood at KD 59.3 Mn in FY 2014.

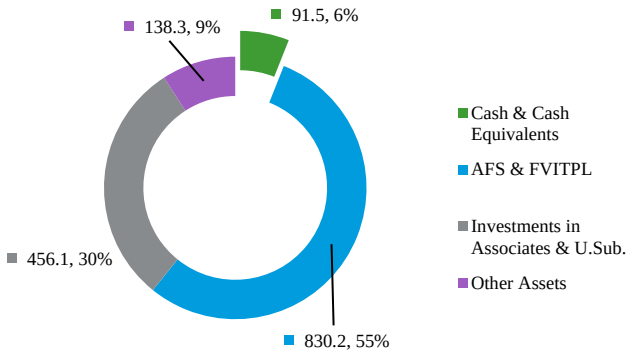
Ratio Analysis:

	2007	2008	2010	2013	2014	Comment
Profitability Ratios						
Return on Assets	2.8%	(12.2%)	6.2%	4.6%	3.2%	TCI / AA
Return on Equity	12.9%	(76.0%)	19.0%	11.3%	6.4%	TCIS / AE
Solvency Ratios:						
Debt Ratio	19.8%	28.7%	20.4%	27.9%	27.4%	Debt / TA
Debt to Equity Ratio	93.0%	312.8%	55.7%	61.6%	51.7%	Debt / TE
Financial Leverage (x)	4.69	10.89	2.73	2.21	1.89	TA / TE
Interest Coverage (x)	1.76	(2.77)	4.02	3.39	4.50	EBIT / Int
CBK Ratios:						
Leverage Ratio	225.4%	551.8%	105.3%	78.2%	60.5%	TL / TE
Shouldn't Exceed 200%	✗	✗	✓	✓	✓	
Quick Ratio	14.5%	29.1%	29.3%	20.2%	18.8%	Cash / TL
Should Exceed 10%	✓	✓	✓	✓	✓	

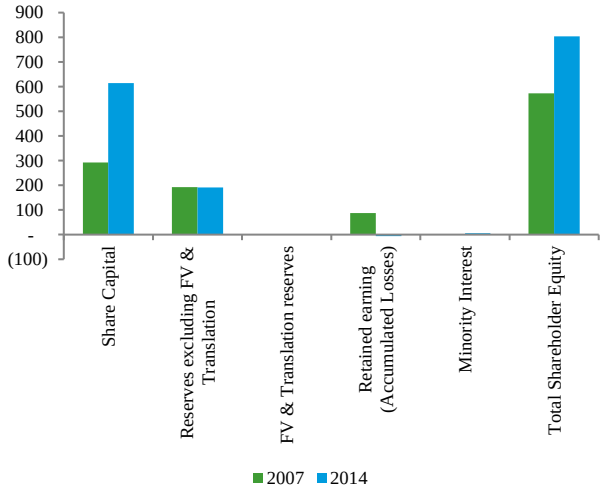
i. Profitability ratios have been over the years other than FY 2008 when the company made losses. In FY 2014, the ratios improved as the company made better profits compared to FY 2013.
ii. Solvency ratios have been slightly decreased in FY 2014 from FY 2013 indicating that the company settled a small portion of the debt. Furthermore, the company made enough operating profits to cover its interest costs.
iii. As per CBK's principles, leverage ratio should not exceed 200%, & the company managed to keep it below 200% over the years, other than in FY 2007 & 2008, indicating the healthy use of debt to finance its operations. On the other hand, quick ratio should exceed 10% & the company managed to achieve it over the years indicating the ability of the company to meet its obligations.

Figure 36: GCC Owned Company – Key Financial Data

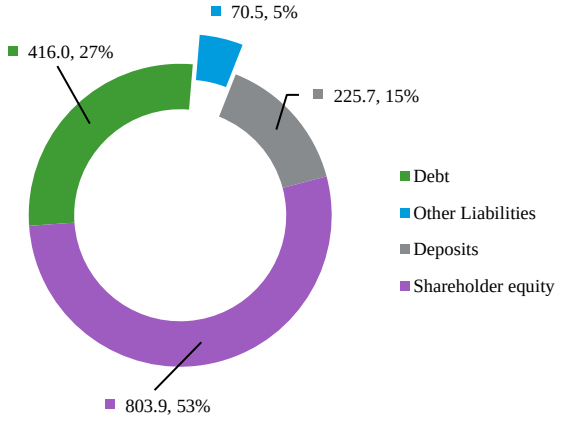
Asset Composition (KD Mn)



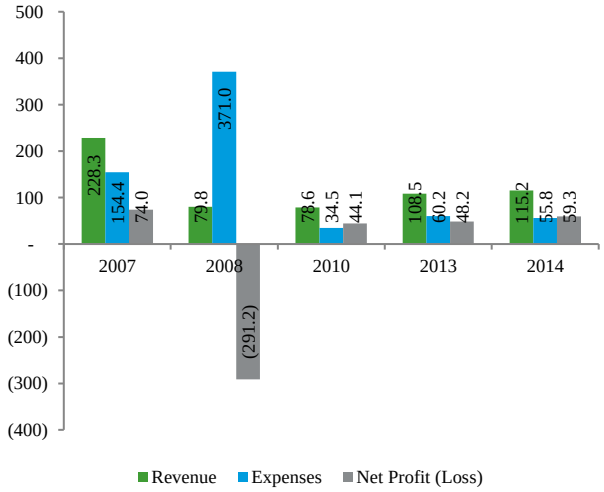
Equity Composition (KD Mn)



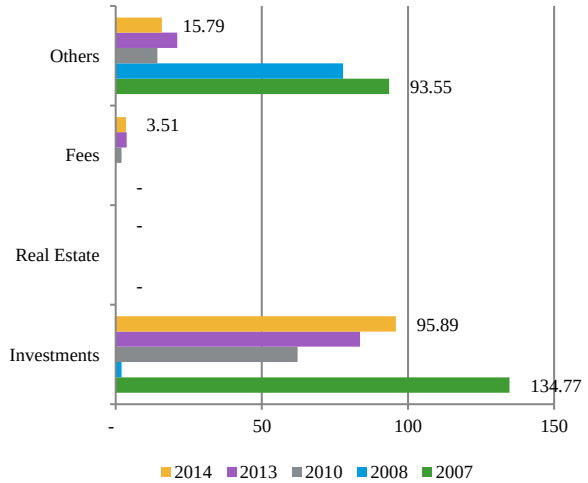
Capital Structure (KD Mn)



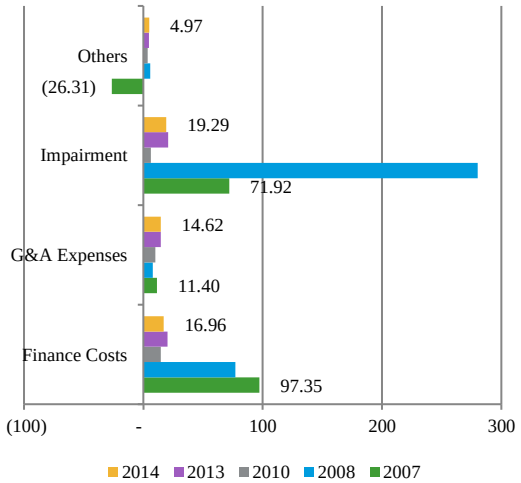
Financial Performance (KD Mn)



Revenue Composition (KD Mn)



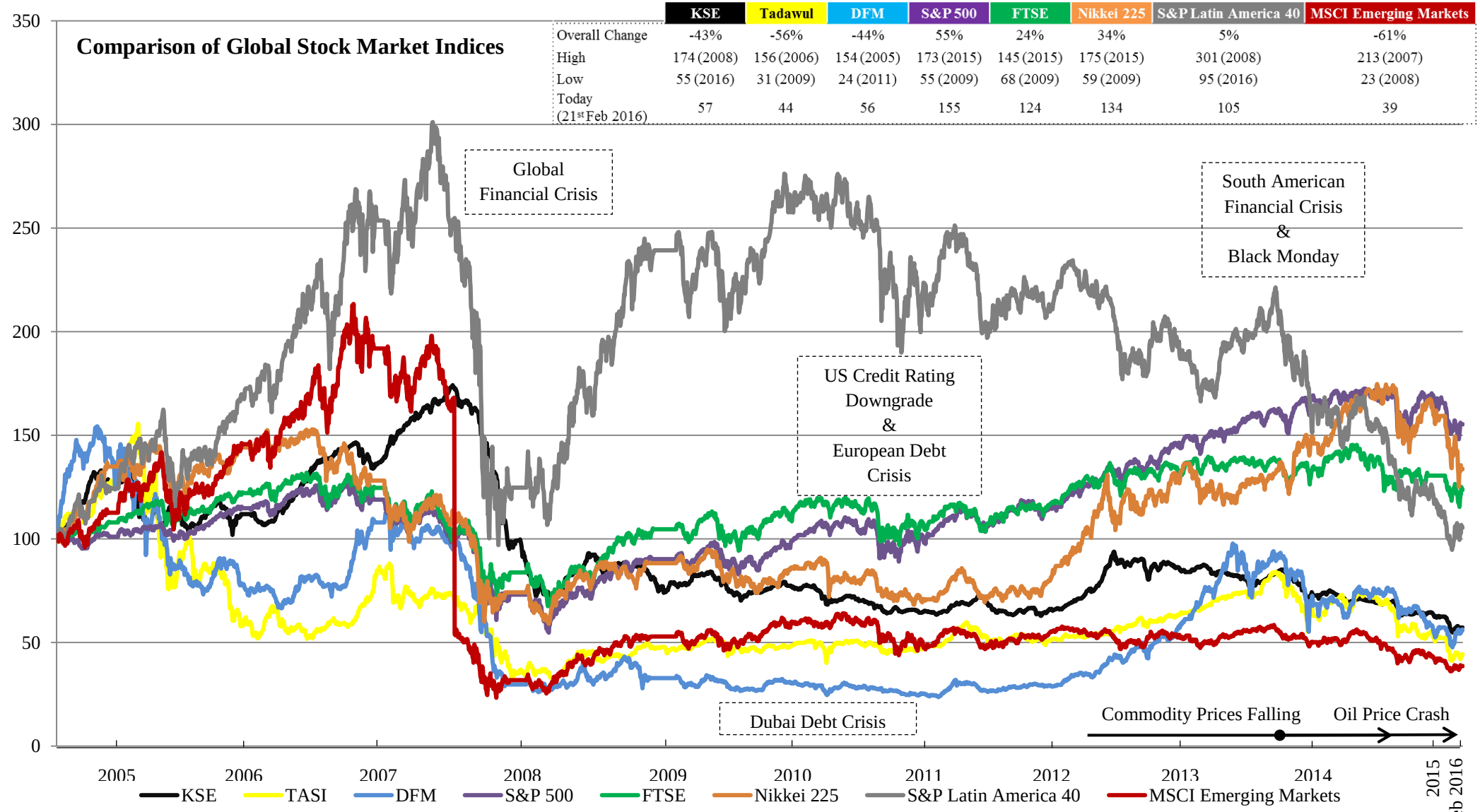
Expenses Composition (KD Mn)



Stock Market

Comparison of Global Stock Market Indices

	KSE	Tadawul	DFM	S&P 500	FTSE	Nikkei 225	S&P Latin America 40	MSCI Emerging Markets
Overall Change	-43%	-56%	-44%	55%	24%	34%	5%	-61%
High	174 (2008)	156 (2006)	154 (2005)	173 (2015)	145 (2015)	175 (2015)	301 (2008)	213 (2007)
Low	55 (2016)	31 (2009)	24 (2011)	55 (2009)	68 (2009)	59 (2009)	95 (2016)	23 (2008)
Today (21st Feb 2016)	57	44	56	155	124	134	105	39



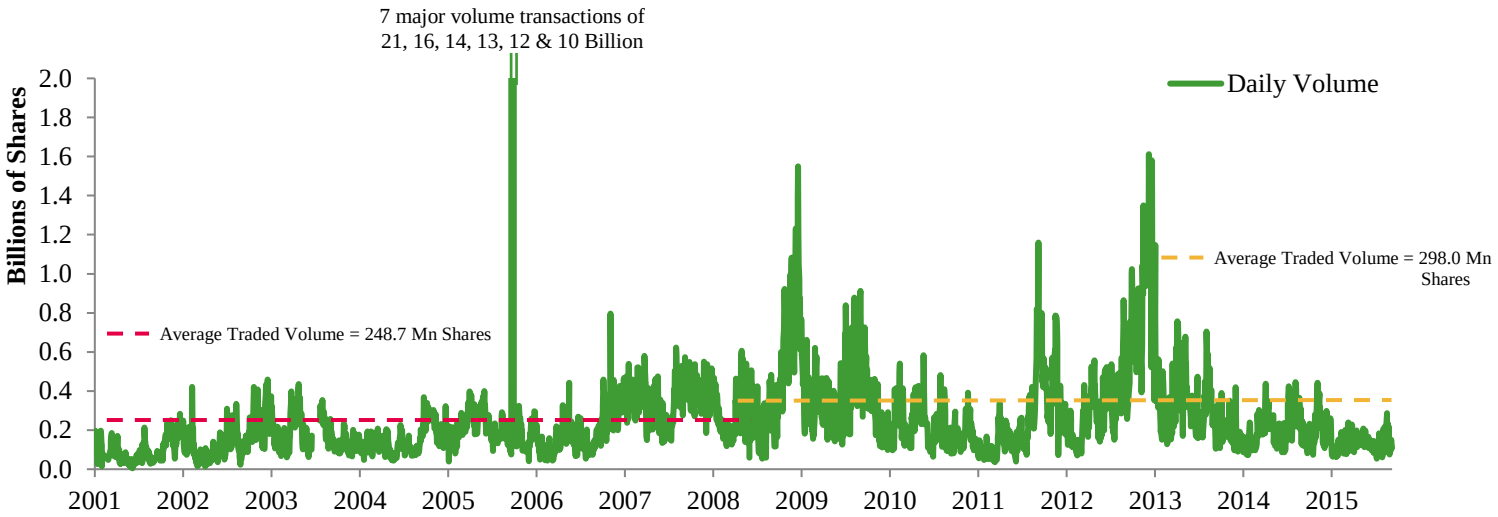
Sources: Kuwait Stock Exchange, www.investing.com, www.msm.gov.om, www.finance.yahoo.com, www.us.spindices.com (S&P Dow Jones Indices)

Remarks:

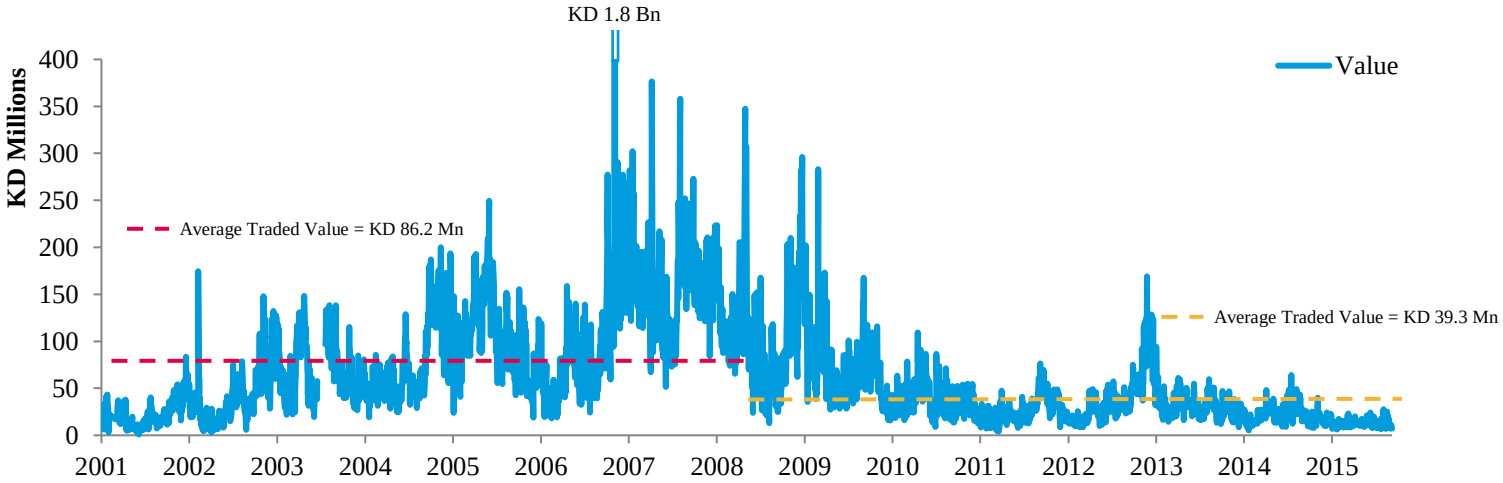
1. The comparison among the indices starts on1st August, 2005 and ends on 21st February, 2016. For the purpose of comparing fairly and equally, the closing price on 1st August, 2005 was taken as a base date for all indices. KSE represents Kuwait Stock Exchange, TASI represents Saudi All Share index, DFM represents Dubai Financial Market General Index, S&P 500 represents the Top 500 Companies in the US, FTSE represents FTSE All Share Index, Nikkei 225 represents Stock Market Index for the Tokyo Stock Exchange, S&P Latin America 40 represents Stock Market Index for highly liquid securities from major economic sectors of Mexican and South American equity markets and MSCI Emerging Markets represents an index to measure equity market performance in global emerging markets.
2. KSE reached its peak on 22nd June, 2008, a 74% increase from the base date while it reached its bottom on 20th January, 2016 a 45% decrease from the base date. On February 21, 2016, KSE stood at 43% decrease from base date performing better than TASI, DFM and MSCI Emerging Markets.
3. The global financial crisis between 2007 and 2008 negatively impacted all indices which led them to drop sharply with most of the indices hitting their bottom. Afterwards, the indices underwent a recovery phase but some of them did not recover well or at the same pace. For e.g., DFM did not recover as the global financial crisis led to the 'Dubai Debt Crisis'. In November 2009, the Dubai government announced that it will request its lenders to hold and extended the maturities of debt related to Dubai World.
4. After the global financial crisis hit, the markets went into a state of turmoil both, fundamentally and technically.
5. In 2010, the European debt crisis gradually started to emerge. The crisis had its effect on other markets as well as during this period.
6. 8th August, 2011 witnessed the downgrading of the US's credit rating from AAA to AA+ for the first time in history, by Standard & Poor's which had a negative impact on international stock markets and all of indices dropped as a result . Moreover, the world had fears over the global economy as a whole.
7. In term of technical analysis, the S&P Latin America 40 index created a long term head and shoulders pattern. The left shoulder structured itself in a narrow simple 5 wave movement with its index ranging from 200 to 250 from late 2008 to mid-2009. Then, it created the head (high point) at 276 during 2010. The market then started forming a wide complex 5 wave right shoulder whose formation took around 3 years, from FY 2011 to FY 2014. At end of FY 2014, the market broke a strong support line at the index of 175. The US credit rating downgrade, falling commodities prices and South American financial crisis all attributed to the downfall of S&P Latin America 40 at the end of FY 2014. The global markets witnessed a significant drop in commodities prices as evident from the Bloomberg Commodity Index which decreased from $162.5 in September 2011 to $75.1 in February 2016. As a result, and due to the nature of the South American countries and as they are a major supplier of commodities, the S&P Latin America 40 performance have been affected significantly falling from a high of 201% increase from the base date on 5th May 2008 to a low of 5% decrease from the base date on 21st January 2016.
8. From 2010 till mid-2014, Brent oil prices had been fairly stable at around $110/ barrel. From 3rd September, 2014, Brent oil prices sharply fell to reach $34.05 on 21st February 2016. The decrease in oil prices had an impact on exporting countries' indices while importing countries are beneficiaries from the declined prices.
9. On 24th August, 2015 China faced 'Black Monday' due to which the Chinese stock market declined by 8.5%. Stock markets all around the world responded by following the Chinese market and fell as well.
10. Since May 2006, KSE performed better than TASI till end of 2014 where both indices were close and performance altered between them. Recently, KSE and TASI are close but KSE witnessed a better performance overall.
11. Since April 2006, KSE performed better than DFM till April 2014, where both indices were close but post which DFM's performance was slightly better. Recently, KSE and DFM are close with a marginal difference in favor of KSE.
12. Since July 2008, KSE has been performing better than MSCI Emerging Markets with a noticeable difference between the two nowadays.

13. The highest growth achieved in the past 10 years was by S&P Latin America 40 in May 2008, a 201% increase from the base date. On the other hand, the lowest achieved in the past 10 years was by MSCI Emerging Markets in November 2008, a 77% decrease from the base date. Since the global financial crisis, MSCI Emerging Markets did not recover, standing at 61% decrease from the base date currently.

Kuwait Stock Exchange:



Note: || For the purpose of better presentation of the graph, the major transactions were mentioned rather than shown.



Note: || For the purpose of better presentation of the graph, the major value was mentioned rather than shown.

Source: Kuwait Stock Exchange

Average of volume/value from 17th June, 2001 to 31st December, 2008.

Average of volume/value from 1st January, 2009 to 21st February, 2016.

Remarks:

1. The comparison between transaction in volume and value starts on 17th June, 2001 and ends on 21st February, 2016. The dates represented on the graph mark the 17th June of each year. The vertical axis is represented until 2.0 Bn for a better presentation of the data and the seven major transactions that are above 2.0 Bn are indicated separately on the graph.
2. In the last 15 years, the average daily transactions have been 272.7 Mn shares and KD 63.3 Mn.
3. The highest transaction that KSE has witnessed was 21.4 Bn shares on 11th March, 2006 while the lowest transaction was 5.0 Mn shares on 18th November, 2001.
4. The highest transaction value that KSE has witnessed was KD 1.8 Bn on 18th April, 2007 while the lowest transaction was KD 0.9 Mn on 19th November, 2001.

5. Transactions in volume had always been higher than value except on 18th April, 2007 where the value was KD 1.8 Bn while the volume was only 795.7 Mn shares.
6. Seven major transactions took place from 5th March, 2006 to 13th March, 2006 with an average of 14.6 Bn shares and the highest being 21.4 Bn shares. Other than those huge transactions, transactions in the past 15 years did not pass the 2.0 Bn shares.
7. The seven major transactions in volume were enormous but their values were very low compared to the volume as, for example, the 21.4 Bn shares transaction was worth only KD107.4 Mn.
8. In 2006, Kuwait's political issues and the changes in rules and regulations of Kuwait Stock Exchange led to intense volatility regarding the trading activity on KSE. Moreover, the reason behind a tremendous higher volume to value in 2006 was because of the significant decline in prices of the listed stocks.
9. The KSE closing price recovered from beginning of 2006 to October 2007 by 12% and it was believed that the market was in a correction phase.
10. Comparing the transactions between 17th June, 2001 and 21st February, 2016, the transactions have declined both in volume and value.

Global Competitiveness Index

Global Competitive Index (GCI) Methodology

"*Building on Klaus Schwab's original idea from 1979, since 2005 the World Economic Forum has published the Global Competitiveness Index developed by Xavier Sala-i-Martín in collaboration with the Forum. The GCI combines 114 indicators that capture concepts that matter for productivity. These indicators are grouped into 12 pillars: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. These are in turn organized into three subindexes, in line with three main stages of development: basic requirements, efficiency enhancers, and innovation and sophistication factors. The three subindexes are given different weights in the calculation of the overall Index, depending on each economy's stage of development, as proxied by its GDP per capita and the share of exports represented by raw materials. The GCI includes statistical data from internationally recognized agencies, notably the International Monetary Fund (IMF); the United Nations Educational, Scientific and Cultural Organization; and the World Health Organization. It also includes data from the World Economic Forum's annual Executive Opinion Survey to capture concepts that require a more qualitative assessment, or for which comprehensive and internationally comparable statistical data are not available.*

Stages of Development and the Weighted Index

Although all of the pillars described above will matter to a certain extent for all economies, it is clear that they affect different economies in different ways.

In line with well-known economic theory of stages of development, the GCI assumes that, in the first stage, the economy is factor-driven and countries compete based on their factor endowments—primarily unskilled labor and natural resource. Maintaining competitiveness at this stage of development hinges primarily on well-functioning public and private institutions (1st pillar), a well-developed infrastructure (2nd pillar), a stable macroeconomic environment (3rd pillar), and a healthy workforce that has received at least a basic education (4th pillar).

As a country becomes more competitive, productivity will increase and wages will rise with advancing development. Countries will then move into the efficiency-driven stage of development, when they must begin to develop more-efficient production processes and increase product quality because wages have risen and they cannot increase prices. At this point, competitiveness is increasingly driven by higher education and training (5th pillar), efficient goods markets (6th pillar), well-functioning labor markets (7th pillar), developed financial markets (8th pillar), the ability to harness the benefits of existing technologies (9th pillar), and a large domestic or foreign market (10th pillar). Finally, as countries move into the innovation-driven stage, wages will have risen by so much that they are able to sustain those higher wages and the associated standard of living only if their businesses are able to compete using the most sophisticated production processes (11th pillar) and by innovating new ones (12th pillar).

The GCI takes the stages of development into account by attributing higher relative weights to those pillars that are more relevant for an economy given its particular stage of development. To implement this concept, the pillars are organized into three subindexes, each critical to a particular stage of development.

The basic requirements subindex groups those pillars most critical for countries in the factor-driven stage. The efficiency enhancer's subindex includes those pillars critical for countries in the efficiency-driven stage. And the innovation and sophistication factors subindex includes the pillars critical to countries in the innovation- driven stage. The weights attributed to each subindex in every stage of development are shown in Table 1.

Source: Global Competitiveness Report 2015-2016

Table 1 ***Stage of Development***					
	Stage 1 Factor driven	***Transition Stage 1 to Stage 2***	***Stage 2 Efficiency driven***	***Transition stage 2 to stage 3***	***Stage 3 Innovation driven***
*GDP per capita (US$) Threshold**	*<2000*	*2,000-2,999*	*3,000-8,999*	*9,000-17,000*	*>17,000*
Weight for basic requirement	*60%*	*40-60%*	*40%*	*20-40%*	*20%*
Weight for efficiency enhancer	*35%*	*35-50%*	*50%*	*50%*	*50%*
Weight for innovation and sophistication	*5%*	*5-10%*	*10%*	*10-30%*	*30%*
** For countries with a high dependency on mineral resources, GDP per capita is not the sole criterion for the determination of the stage of development.*					

Two criteria are used to allocate countries into stages of development. The first is the level of GDP per capita at market exchange rates. The thresholds used are also reported in Table 1. A second criterion is used to adjust for countries that, based on income, would have moved beyond stage 1, but where prosperity is based on the extraction of resources. This is measured by the share of exports of mineral goods in total exports (goods and services), and assumes that countries with more than 70 percent of their exports made up of mineral products (measured using a five-year average) are to a large extent factor driven. Countries that are resource driven and significantly wealthier than economies at the technological frontier are classified in the innovation-driven stage. Any countries falling between two of the three stages are considered to be "in transition." For these countries, the weights change smoothly as a country develops, reflecting the smooth transition from one stage of development to another. The classification of countries into stages of development is shown in Table2.

Source: Global Competitiveness Report 2015-2016

Table 2

	Stage 1 Factor driven (35 economies)	*Transition Stage 1 to Stage 2 (16 economies)*	*Stage 2 Efficiency driven (31 economies)*	*Transition stage 2 to stage 3 (20 economies)*	*Stage 3 Innovation driven (38 economies)*
1	Bangladesh	Algeria	Albania	Argentina	Australia
2	Benin	Azerbaijan	Armenia	Brazil	Austria
3	Burundi	Bhutan	Bolivia	Chile	Bahrain
4	Cambodia	Botswana	Bosnia and Herzegovina	Costa Rica	Belgium
5	Cameroon	Gabon	Bulgaria	Croatia	Canada
6	Chad	Honduras	Cape Verde	Hungary	Cyprus
7	Côte d'Ivoire	Iran, Islamic rep.	China	Latvia	Czech Republic
8	Ethiopia	Kazakhstan	Colombia	Lebanon	Denmark
9	Gambia, The	Kuwait	Dominican Republic	Lithuania	Estonia
10	Ghana	Moldova	Ecuador	Malaysia	Finland
11	Guinea	Mongolia	Egypt	Mauritius	France
12	Haiti	Nigeria	El Salvador	Mexico	Germany
13	India	Philippines	Georgia	Oman	Greece
14	Kenya	Saudi Arabia	Guatemala	Panama	Hong Kong SAR
15	Kyrgyz Republic	Venezuela	Guyana	Poland	Iceland
16	Lao PDR	Vietnam	Indonesia	Romania	Ireland
17	Lesotho		Jamaica	Russian Federation	Israel
18	Liberia		Jordan	Seychelles	Italy
19	Madagascar		Macedonia, FYR	Turkey	Japan
20	Malawi		Montenegro	Uruguay	Korea, Rep
21	Mali		Morocco		Luxembourg
22	Mauritania		Namibia		Malta
23	Mozambique		Paraguay		Netherlands
24	Myanmar		Peru		New Zealand
25	Nepal		Serbia		Norway
26	Nicaragua		South Africa		Portugal
27	Pakistan		Sri Lanka		Qatar
28	Rwanda		Swaziland		Singapore
29	Senegal		Thailand		Slovak Republic
30	Sierra Leone		Tunisia		Slovenia
31	Tajikistan		Ukraine		Spain
32	Tanzania				Sweden
33	Uganda				Switzerland
34	Zambia				Taiwan, China
35	Zimbabwe				Trinidad and Tobago
36					United Arab Emirates
37					United Kingdom
38					United States

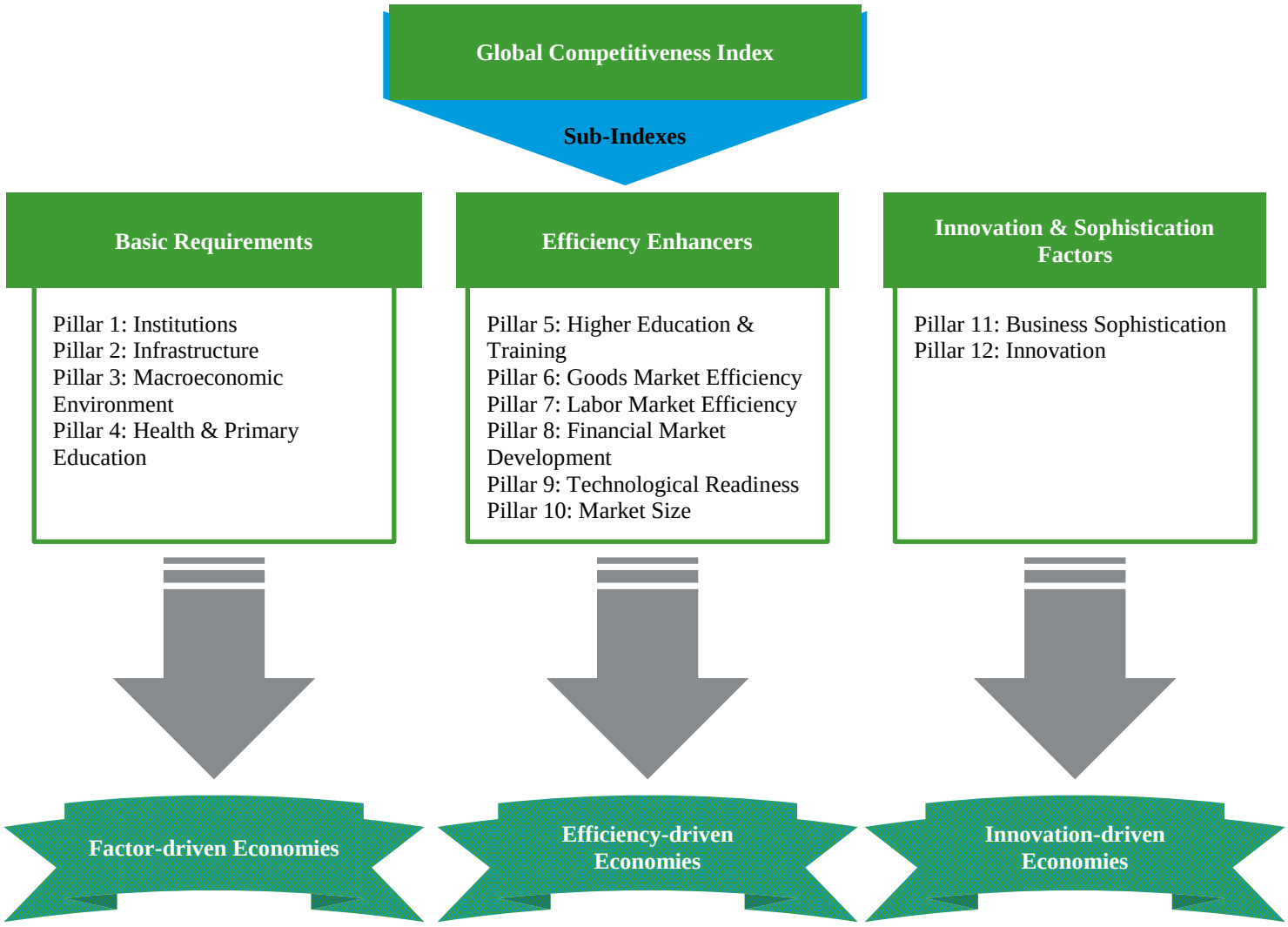
Structure and Computation of the Index

The computation of the GCI is based on successive aggregations of scores from the indicator level (i.e., the most disaggregated level) all the way up to the overall GCI score. Unless noted otherwise, we use an arithmetic mean to aggregate individual indicators within a category. For the higher aggregation levels, we use the percentage shown next to each category. This percentage represents the category's weight within its immediate parent category. Reported percentages are rounded to the nearest integer, but exact figures are used in the calculation of the GCI. For example, the score a country achieves in the 11th pillar accounts for 50 percent of this country's score in the innovation and sophistication factors subindex, irrespective of the country's stage of development. Similarly, the score achieved on the subpillar transport infrastructure accounts for 50 percent of the score of the infrastructure pillar. Unlike the case for the lower levels of aggregation, the weight put on each of the three subindexes (basic requirements, efficiency enhancers, and innovation and sophistication factors) is not fixed. Instead, it depends on each country's stage of development, as discussed in the chapter.f For instance, in the case of Burundi—a country in the first stage of development—the score in the basic requirements subindex accounts for 60 percent of its overall GCI score, while it represents just 20 percent of the overall GCI score of Sweden, a country in the third stage of development. For countries in transition between stages, the weighting applied to each subindex is reported in the corresponding profile at the end of this volume. For instance, in the case of Turkey, currently in transition from stage 2 to stage 3, the weight on each subindex is 36.3 percent, 50 percent, and 13.7 percent, respectively, as reported in the country profile on page 350. Indicators that are not derived from the Executive Opinion Survey (the Survey) are identified by an asterisk (*) in the following list. The Technical Notes and Sources section at the end of the Report provides detailed information about each of these indicators. To make the aggregation possible, the indicators are converted to a 1-to-7 scale in order to align them with the Survey results. We apply a min-max transformation, which preserves the order of, and the relative distance between, country scores. Indicators that are followed by the designation "½" enter the GCI in two different pillars. In order to avoid double counting, we assign a half-weight to each instance.

Note 1 In order to capture the resource intensity of the economy, we use as a proxy the exports of mineral products as a share of overall exports according to the sector classification developed by the International Trade Centre in their Trade Performance Index. In addition to crude oil and gas, this category also contains all metal ores and other minerals as well as petroleum products, liquefied gas, coal, and precious stones. The data used cover the years 2010 through 2014. Further information on these data can be found at http://www.intracen.org/menus/countries.htm All countries with more than 70 percent of their exports made up of mineral products are considered to be to some extent factor driven. The stage of development for these countries is adjusted downward smoothly depending on the exact primary export share. The higher the minerals export share, the stronger the adjustment and the closer the country will move to stage 1. For example, a country that exports 95 percent of mineral exports and that, based on the income criteria, would be in stage 3 will be in transition between stages 1 and 2. The income and primary exports criteria are weighted identically. Stages of development are dictated solely by income for countries that export less than 70 percent minerals. Countries that export only primary products would automatically fall into the factor-driven stage (stage 1).

Note 2 In practice, this applies to countries where the GDP per capita at current market prices has, for the past five years, been above an average of that of economies at the technology frontier. Countries at the technology frontier are the 10 countries with the highest per capita patenting activity according, to Patent Cooperation Treaty data.

Source: Global Competitiveness Report 2015-2016



Summary of GCC Global Competitiveness Index:

	Rank out of 140 Countries					
	Kuwait	**Saudi**	**UAE**	**Qatar**	**Bahrain**	**Oman**
Global Competitiveness Index 2015-2016	**34**	**25**	**17**	**14**	**39**	**62**
Index Score 2015-2016 (out of 7)	**4.59**	**5.07**	**5.24**	**5.3**	**4.52**	**4.25**
GDP ($ Bn) – 2014	172.4	752.5	401.6	210.0	33.9	77.8
GDP per Capita ($) – 2014	43,103	24,454	43,180	93,965	28,272	19,002
Basic Requirements Sub-index	**33**	**17**	**4**	**5**	**32**	**29**
Efficiency Enhancers Sub-index	**72**	**30**	**17**	**21**	**35**	**63**
Innovation & Sophistication Factors Sub-index	**82**	**29**	**21**	**12**	**43**	**85**
Driven-Economy	Transition from Factor to Efficiency	Transition from Factor to Efficiency	Innovation	Innovation	Innovation	Transition from Efficiency to Innovation

Source: Global Competitiveness Report 2015-2016

Summary of Global Competitiveness Index for GCC countries:

	Rank out of 140 Countries					
	Kuwait	***Saudi***	***UAE***	***Qatar***	***Bahrain***	***Oman***
Global Competitiveness Index (2015-2016)	***34***	***25***	***17***	***14***	***39***	***62***
Index Score (2015-2016)	***4.59***	***5.07***	***5.24***	***5.3***	***4.52***	***4.25***
GDP ($ Bn) – 2014	*172.4*	*752.5*	*401.6*	*210.0*	*33.9*	*77.8*
GDP per Capita ($) – 2014	*43,103*	*24,454*	*43,180*	*93,965*	*28,272*	*19,002*
Basic Requirements	***33***	***17***	***4***	***5***	***32***	***29***
Pillar 1: Institutions	*56*	*24*	*9*	*4*	*26*	*31*
1.01 Property Rights	*59*	*30*	*25*	*13*	*29*	*33*
1.02 Intellectual Property Protection	*84*	*30*	*22*	*11*	*31*	*40*
1.03 Diversion of Public Funds	*58*	*21*	*8*	*5*	*24*	*35*
1.04 Public Trust in Politicians	*65*	*12*	*2*	*3*	*24*	*23*
1.05 Irregular Payments & Bribes	*56*	*25*	*7*	*13*	*21*	*34*
1.06 Judicial Independence	*34*	*25*	*22*	*15*	*41*	*46*
1.07 Favouritism in Decisions of Government Officials	*86*	*19*	*5*	*1*	*22*	*37*
1.08 Wastefulness of Government Spending	*93*	*12*	*2*	*1*	*17*	*6*
1.09 Burden of Government Regulation	*125*	*39*	*5*	*2*	*10*	*61*
1.1 Efficiency of Legal Framework in Setting Disputes	*45*	*27*	*18*	*4*	*33*	*40*
1.11 Efficiency of Legal Framework in Challenging Regulations	*36*	*26*	*21*	*2*	*28*	*53*
1.12 Transparency of Government Policymaking	*96*	*37*	*16*	*8*	*27*	*54*
1.13 Business Costs of Terrorism	*59*	*54*	*7*	*22*	*106*	*19*
1.14 Business Costs of Crime & Violence	*34*	*14*	*1*	*3*	*54*	*6*
1.15 Organized Crime	*31*	*10*	*2*	*7*	*18*	*4*
1.16 Reliability of Police Services	*56*	*34*	*7*	*3*	*36*	*26*
1.17 Ethical Behaviour of Firms	*58*	*25*	*10*	*12*	*24*	*35*
1.18 Strength of Auditing & Reporting Standards	*81*	*29*	*26*	*10*	*18*	*35*
1.19 Efficacy of Corporate Boards	*134*	*55*	*23*	*17*	*27*	*48*
1.2 Protection of Minority Shareholders' Interests	*65*	*21*	*15*	*4*	*20*	*27*
1.21 Strength of Investor Protection	*42*	*55*	*42*	*105*	*90*	*105*
Pillar 2: Infrastructure	*54*	*30*	*4*	*18*	*29*	*36*
Pillar 3: Macroeconomic Environment	*3*	*4*	*7*	*2*	*82*	*19*
3.01 Government Budget Balance	*1*	*26*	*4*	*2*	*119*	*41*
3.02 Gross National Savings	*2*	*6*	*13*	*1*	*81*	*21*
3.03 Inflation	*46*	*1*	*1*	*51*	*1*	*1*
3.04 General Government Debt	*4*	*1*	*8*	*38*	*70*	*2*
3.05 Country Credit Rating	*27*	*29*	*25*	*23*	*57*	*36*
Pillar 4: Health & Primary Education	*79*	*49*	*38*	*28*	*35*	*66*

Source: Global Competitiveness Report 2015-2016

	Rank out of 140 Countries					
	Kuwait	Saudi	UAE	Qatar	Bahrain	Oman
Efficiency Enhancers	**72**	**30**	**17**	**21**	**35**	**63**
Pillar 5: Higher Education & Training	85	49	37	27	44	88
Pillar 6: Goods Market Efficiency	98	29	3	5	18	52
6.01 Intensity of Local Competition	69	40	8	25	47	95
6.02 Extent of Market Dominance	107	23	9	7	40	123
6.03 Effectiveness of Anti-Monopoly Policy	126	27	7	6	24	90
6.04 Effect of Taxation on Incentives to Invest	22	12	2	3	1	6
6.05 Total Tax Rate	3	6	7	2	4	19
6.06 No. of Procedures to Start a Business	130	104	57	93	76	38
6.07 No. Days to Start a Business	116	100	42	49	50	40
6.08 Agricultural Policy Costs	135	17	5	2	33	38
6.09 Prevalence of Non-Tariff Barriers	104	51	2	23	13	59
6.1 Trade Tariffs	60	61	58	59	57	56
6.11 Prevalence of Foreign Ownership	136	107	10	42	18	105
6.12 Business Impact on Rules on FDI	137	107	7	16	8	80
6.13 Burden of Customs Procedures	102	47	3	10	27	50
6.14 Imports as a percentage of GDP	110	118	19	112	66	55
6.15 Degree of Customer Orientation	85	66	8	6	37	91
6.16 Buyer Sophistication	58	36	12	1	29	89
Pillar 7: Labor Market Efficiency	117	60	11	14	24	89
7.07 Reliance on Professional Management	123	41	20	19	30	53
Pillar 8: Financial Market Development	73	41	20	13	33	45
8.01 Availability of Financial Services	66	47	22	13	15	46
8.02 Affordability of Financial Services	50	29	20	6	15	26
8.03 Financing through Local Equity Market	38	25	21	4	51	27
8.04 Ease of Access to Loans	46	27	3	1	8	9
8.05 Venture Capital Availability	51	27	7	1	23	36
8.06 Soundness of Banks	37	18	21	10	29	38
8.07 Regulation of Securities Exchanges	85	30	16	7	13	22
8.08 Legal Rights Index	106	106	106	129	129	129
Pillar 9: Technological Readiness	56	42	30	31	34	62
9.01 Availability of Latest Technology	67	39	9	20	29	65
9.03 FDI & Technology Transfer	132	18	3	4	30	84
Pillar 10: Market Size	58	17	31	56	92	64
Innovation & Sophistication Factors	**82**	**29**	**21**	**12**	**43**	**85**
Pillar 11: Business Sophistication	63	29	15	10	32	71
Pillar 12: Innovation	109	34	26	14	56	103
12.01 Capacity for Innovation	101	57	28	12	70	119
12.2 Quality of Scientific Research Institutions	96	49	30	14	87	116
12.05 Government Procurement of Advanced Tech Products	102	7	2	1	15	43
Driven Economy	**Factor**	**Factor**	**Innovation**	**Innovation**	**Innovation**	**Efficiency**

Source: Global Competitiveness Report 2015-2016

Global Competitiveness Index Summary:

Summary												
	OR = Overall Ranking			BR = Basic Requirement			EE = Efficient Enhancer			IS = Innovation and Sophistication		
Stage 1 - Factor Driven (35 economies)	Top 5 OR	OR Rank	OR Score	Top 5 BR	BR Rank	BR Score	Top 5 EE	EE Rank	EE Score	Top 5 EE	IS Rank	IS Score
	India	55	4.31	Rwanda	65	4.6	India	58	4.19	Kenya	42	3.93
	Rwanda	58	4.29	India	80	4.41	Kenya	73	3.99	India	46	3.9
	Tajikistan	80	4.03	Tajikistan	84	4.32	Rwanda	85	3.84	Senegal	54	3.75
	Lao PDR	83	4	Lao PDR	86	4.3	Zambia	87	3.81	Rwanda	55	3.74
	Cambodia	90	3.94	Cambodia	93	4.19	Ghana	95	3.76	Ghana	65	3.6
Transition 1 -2 (16 economies)	Top 5 OR	OR Rank	OR Score	Transition 1-2	BR Rank	BR Score	Transition 1-2	EE Rank	EE Score	Transition 1-2	IS Rank	IS Score
	Saudi Arabia	25	5.07	Saudi Arabia	17	5.7	Saudi Arabia	30	4.69	Saudi Arabia	29	4.18
	Kuwait	34	4.59	Kuwait	33	5.18	Kazakhstan	45	4.36	Philippines	47	3.88
	Azerbaijan	40	4.5	Azerbaijan	43	4.92	Philippines	51	4.3	Honduras	53	3.75
	Kazakhstan	42	4.49	Kazakhstan	46	4.87	Azerbaijan	69	4.05	Azerbaijan	66	3.59
	Philippines	47	4.39	Botswana	61	4.65	Vietnam	70	4.04	Kazakhstan	78	3.53
	Kuwait	***34***	***4.59***	***Kuwait***	***33***	***5.18***	***Kuwait***	***72***	***4.03***	***Kuwait***	***82***	***3.48***
GCC	*Saudi Arabia*	*25*	*5.07*	*Saudi Arabia*	*17*	*5.7*	*Saudi Arabia*	*30*	*4.69*	*Saudi Arabia*	*29*	*4.18*
Stage 2 - Efficiency driven (31 economies)	Top 5 OR	OR Rank	OR Score	Stage 2	BR Rank	BR Score	Stage 2	EE Rank	EE Score	Stage 2	IS Rank	IS Score
	China	28	4.89	China	28	5.37	China	32	4.66	Indonesia	33	4.14
	Thailand	32	4.64	Thailand	42	4.94	Thailand	38	4.56	China	34	4.11
	Indonesia	37	4.52	Indonesia	49	4.84	South Africa	41	4.51	South Africa	36	4.06
	South Africa	49	4.39	Georgia	51	4.83	Indonesia	46	4.34	Jordan	40	3.99
	Bulgaria	54	4.32	Morocco	55	4.73	Bulgaria	50	4.31	Sri Lanka	41	3.95

Transition 2 - 3 (20 economies)	Top 5 OR	OR Rank	OR Score
	Malaysia	18	5.23
	Chile	35	4.58
	Lithuania	36	4.55
	Poland	41	4.49
	Latvia	44	4.45
GCC	*Oman*	*62*	*4.25*

Transition 2-3	BR Rank	BR Score
Malaysia	22	5.59
Oman	29	5.33
Lithuania	35	5.14
Chile	36	5.12
Latvia	37	5.10
Oman	*29*	*5.33*

Transition 2-3	EE Rank	EE Score
Malaysia	22	5.01
Chile	31	4.67
Poland	34	4.64
Lithuania	36	4.59
Latvia	39	4.56
Oman	*63*	*4.13*

Transition 2-3	IS Rank	IS Score
Malaysia	17	5.05
Lithuania	37	4.02
Costa Rica	38	4.01
Panama	44	3.91
Chile	50	3.81
Oman	*85*	*3.45*

Stage 3 - Innovation driven (38 economies)	Top 5 OR	OR Rank	OR Score
	Switzerland	1	5.76
	Singapore	2	5.68
	United States	3	5.61
	Germany	4	5.53
	Netherlands	5	5.50
GCC	*Qatar*	*14*	*5.3*
	United Arab Emirates	*17*	*5.24*
	Bahrain	*39*	*4.52*

Stage 3	BR Rank	BR Score
Singapore	1	6.36
Switzerland	2	6.26
Hong Kong SAR	3	6.20
United Arab Emirates	4	6.17
Qatar	5	6.13
Qatar	*5*	*6.13*
United Arab Emirates	*4*	*6.17*
Bahrain	*32*	*5.21*

Stage 3	EE Rank	EE Score
United States	1	5.76
Singapore	2	5.70
Hong Kong SAR	3	5.57
Switzerland	4	5.55
United Kingdom	5	5.49
Qatar	*21*	*5.05*
United Arab Emirates	*17*	*5.11*
Bahrain	*35*	*4.6*

Stage 3	IS Rank	IS Score
Switzerland	1	5.78
Japan	2	5.66
Germany	3	5.61
United States	4	5.59
Finland	5	5.50
Qatar	*12*	*5.18*
United Arab Emirates	*21*	*4.83*
Bahrain	*43*	*3.92*

Note - Kuwait needs to learn how to play catch up to Qatar, United Arab Emirates and Bahrain to move from Transition 1-2 to stage 3

Source: Global Competitiveness Report 2015-2016

Crises

Kuwait Crises

This section of the report covers analysis conducted as a part of research to revitalize the state of the investment sector in Kuwait. It covers analysis on four fronts, as follows:

i. Background – This entails researching events that have led to the crisis
ii. Impact – This entails the impact on the economy as the crisis hits
iii. Solutions and Consequences – This entails the actions taken by the government (Fiscal policy / Monetary policy) as an act to assist the economy recover
iv. Resonance to Kuwait – This entails the inferences that can be made to Kuwait

The crises were analyzed for the following reasons:

i. Al Mankakh was studied to understand the impact of price shocks to a country whose economy is highly sensitive to a single resource (Oil)
ii. Margin Trading rules was studied to understand the impact of price shocks to a country whose economy is highly sensitive to a single resource (Oil)

Margin Trading Rules

The central bank of Kuwait issued instruction (2/BS/1997) concerning credit facilities extended by banks for financing trading in securities and for other purposes. The CBK ordered the banks to stop granting new credit facilities such as overdraft, trading facilities against cash margins and direct loans to finance trading shares in the Kuwait Stock Exchange in order to initiate necessary actions to reduce the balances utilized of these facilities. The CBK wanted to curb the usage of these loans and it restricted facilities to the lower of 10% of the total credit portfolio extended to the resident customer or to 25% of the bank's capital in its comprehensive concept.

On February 8th 1999, the CBK issued another circular (2/BS/69/1999) that allows the commercial banks to resume granting margin facilities besides other loans and credit facilities extended to customers to finance trading in shares in the Kuwait stock Exchange within the limits set by above. Further, banks were more instructions some of which are:

i. Bank facility must not exceed 200% of the margin submitted by the customer
ii. Facility should not exceed one year renewable based on a new credit review of the customer
iii. Banks should prepare a allowed list of share for margin facilities
iv. Portfolio's market value should be calculated on a daily basis and the value granted to the customer should not fall below 125% of collateral. In an event where it falls, the customer should provide more collateral
v. The Bank shall observe professional and technical ethics in managing the portfolio and shall not allow the investment in shares of any one company to exceed 25% of the portfolio's market value.

Souk Al Manakh 1982 – Unofficial Stock Market Crash

Souk Al Manakh was established as a parallel market to Kuwait Stock Exchange. Souk Al Manakh, unofficial stock market, specialized in trading stocks for unregulated highly speculative non-Kuwait companies as the official market did not allow non-Kuwaiti companies to be traded on it. The Kuwaiti individual wealth was amplified during the period of 1970s as oil revenues augmented and individuals pursued to invest their wealth which led to the creation of Souk Al Manakh. The capital invested in the Souk Al Manakh was mainly from individual Kuwaiti's wealth and from bank borrowings. During early 1980s, the stock prices hiked to ridiculous levels and it was the third largest market in the world behind United States and Japan. At some point, investors started using post-dated cheques to trade on Souk Al Manakh expecting the value of the stocks to increase before the cheques were due. Further, even the post-dated cheques were traded in a secondary market at interest rates as high as 100%. Eventually, the stocks of real and fictional non-Kuwaiti companies were traded with no relation to their performance or projections as their stocks value were growing at a range of 20% to 50% a month. Moreover, the IPO market grew as investors took the advantage of the greedy investors who would invest in anything to profit from the market.

In beginning of 1982, there were approximately 28,800 cheques amounting to KD 26.7 Bn (about $91 Bn) of which KD 18 Bn (about $61Bn) were traced to eight individuals only. The Kuwaiti market capitalization stood at $100 Bn in 1982. In August 1982, the market collapsed when a post-dated cheque amounting to KD 9 Mn (about $30 Mn) owned by Jassim Al Mutawa was bounced and investors rushed to banks to cash their cheques which were invested in worthless

companies. The government rushed to create a rescue fund called Kuclear for Kuwait Clearing and Financial Settlement Company. Claims that did not exceed KD 0.1 Mn were paid in cash while those exceeding KD 0.1 Mn but less than KD 2 Mn were paid by Governmental bonds with maturities ranging from 6 month to 5 years. Further, cheques higher than KD 2 Mn traced to 8 individuals were under investigation and not compensated. Moreover, the market collapsed at the worst time for Kuwait as its oil prices plummeted and oil revenues declined to only a quarter as compared to 1980 levels as the world witnessed oversupply of oil. The collapse along with the lower oil revenues pushed Kuwait and the gulf region to a recession.

After the collapse of the Souk Al Manakh, the government took steps to avoid another stock bubble by tightening the regulations on the stock exchange through imposing limitations mainly on number of brokers, the size of transactions and the number of companies to be floated. Further, during the years, the government took measures to increase the efficiency of the Kuwait Stock Exchange such as daily price change limits system, the written auction system, the separation of the market into the primary and parallel markets, the registration of the brokerage companies and dealers and imposition of disclosure rules to increase the transparency of the market.

International Crises

This section of the report covers analysis conducted as a part of research to revitalize the state of the investment sector in Kuwait. It covers analysis on four fronts, as follows:

i. Background – This entails researching events that have led to the crisis
ii. Impact – This entails the impact on the economy as the crisis hits
iii. Solutions and Consequences – This entails the actions taken by the government (Fiscal policy / Monetary policy) as an act to assist the economy recover
iv. Resonance to Kuwait – This entails the inferences that can be made to Kuwait

The crises were analyzed for the following reasons:

i. Energy crisis was studied to understand the impact of price shocks to a country whose economy is highly sensitive to a single resource (Oil)
ii. Japanese asset bubble as the key element of crisis was a real estate bubble and its long lasting impact on the economy
iii. Asian currency crisis was analyzed to understand the impact of the emergency liquidity support and impact of the enforced closure of financial institutions.
iv. Russian crisis was studied to understand the impact of the fall in currency value and the implementation of a bank restructuring strategy
v. Dotcom Bubble was studied to analyze the effects of speculation and the effect of low interest rate on the economy
vi. Housing bubble was studied to understand the effects of mortgage backed securities to housing prices and comprehend the rescue measures implemented
vii. European debt crisis was studied to understand the impact of lack of liquidity and higher bond yields when countries where faced with competitive weakness and high budget deficit
viii. Chinese stock market was studied as it is the most recent crisis to understand the impact of the fall of a debt driven market in the event of subdued growth.

\Energy Crisis

Background

i. Increase in demand and consumption of oil in industrialized nations.
ii. Petroleum shortage in most western countries with peaking oil production.
iii. 1973 embargo by OPEC on Western countries who supported Israel in the Yom Kippur war.
iv. 1979 Iranian Revolution – global oil supply declined by only 4%. However there was widespread panic which led to oil prices doubling in a few months.
v. Fall of the Bretton Woods system and the Vietnam War are other contributing factors.

Impact

i. Increase in oil prices by 4x to reach $12/barrel in 1974. This led to a further increase in petroleum related products including plastics.
ii. Oil consumption decreased as prices rose.
iii. The UK imposed a three day work week to contain the consumption of power.
iv. Oil exporting nations had control over the market and made huge windfall gains as a result of the oil price spike.
v. Stagnant growth with high inflation during a recession led to the coinage of the term “stagflation”. Inflation peaked at 24% in the UK while it briefly touched 12% in the US.
vi. Unemployment rates spiked - US unemployment reached a peak of 9% in 1975.
vii. In addition to causing major problems in the lives of consumers, the energy crisis was a huge blow to the American automotive industry, which had for decades turned out bigger and bigger cars and would now be outpaced by Japanese manufacturers producing smaller and more fuel-efficient models.
viii. 1973-1974 stock market crash - Dow Jones Industrial Average dropped by around 45% while the FT30 lost 73% of its value. The Hong Kong Hang Seng index fell from 1,800 to 300. Although West Germany's market was the fastest to recover, returning to the original nominal level within eighteen months, it did not return to the same real level until June 1985. The United Kingdom didn't return to the same market level until May 1987, whilst the United States didn't see the same level in real terms until August 1993, over twenty years after the crash.
ix. Recession - The GDP of the UK declined by 3.9% while that of the US fell by 3.2% between 1973- 1975.

Solutions and Consequences

i. Strategic Petroleum Reserves – Governments created stockpiles of crude oil.
ii. The Jimmy Carter administration began a phased deregulation of oil prices in 1979, when the average price of crude oil was US$15.85 per barrel. Deregulating domestic oil price controls allowed domestic U.S. oil output to rise sharply, while oil imports fell sharply.
iii. The energy crisis led to greater interest in renewable energy and spurred research in solar power and wind power. It also led to greater pressure to exploit North American oil sources and increased the West's dependence on coal and nuclear power.
iv. Western central banks decided to sharply cut interest rates to encourage growth, deciding that inflation was a secondary concern. Although this was the orthodox macroeconomic prescription at the time, the resulting stagflation surprised economists and central bankers. The Federal Reserve dropped the interest rate in 1973 from around 11% to around 9% – a full 2% drop. Rather than buoying growth, however, this sent the inflation into overdrive. Wages cannot keep up with the subsequent spike, so purchasing power falls and growth does not return. Terrified by the double-digit inflation rate in 1974, the Federal Reserve switched gears and increased the interest rate up to near 14%. This snuffed out a nascent economic recovery in 1974 – the high rate of inflation was factored into salaries, and consumers regained their spending footing. By raising rates again, the Federal Reserve starved inflation back down, but did so at a cost of a very contractionary, high interest rate. The economy slipped back into the throws of the recession for another year or so, and the unemployment rate took off, rising to around 9% by 1975.
v. The price shock created large current account deficits in oil-importing economies. A petrodollar recycling mechanism was created, through which OPEC surplus funds were channeled through the capital markets to the West to finance the current account deficits. The functioning of this mechanism required the relaxation of capital controls in oil-importing economies. It marked the beginning of an exponential growth of Western capital markets.

vi. Energy Policy and Conservation Act passed by the US Congress - to increase energy production and supply, reduce energy demand, provide energy efficiency, and give the executive branch additional powers to respond to disruptions in energy supply.

vii. Corporate Average Fuel Economy (CAFE) Standards - First enacted by Congress in 1975, the purpose of CAFE is to reduce energy consumption by increasing the fuel economy of cars and light trucks. The CAFE standards are fleet-wide averages that must be achieved by each automaker for its car and truck fleet, each year, since 1978. When these standards are raised, automakers respond by creating a more fuel-efficient fleet.

viii. International Energy Agency – Founded in 1974, the IEA was initially designed to help countries co-ordinate a collective response to major disruptions in the supply of oil such as the crisis of 1973/4.

Resonance to Kuwait

i. High dependence on a single natural resource can over expose an economy to price shocks.
ii. High oil prices lead to overall global commodity inflation.
iii. Spikes in oil prices tend to be associated with recessions due to reduced discretionary spending.

Japanese Asset Price Bubble (1980)

Background

i. The second half of the 1980s witnessed acceleration in the pace of financial liberalization and deregulation – Relaxation of interest rate controls, Capital Market deregulation (lifting prohibition on Euro-Yen loans, easy access to Corporate Bond market and the creation of Commercial Paper Market) and relaxation of restrictions on permissible activities of previously tightly segregated institutions.

ii. Above-trend economic growth with near-zero inflation resulted in a marked decline in the Country Risk Premium and an upward adjustment of growth expectations. This boosted asset prices and fueled rapid credit expansion. The CPI inflation rate fluctuated at the low range of 0% to 3% for most of the 1980s while asset prices rose sharply.

iii. Loose lending by Banks – downward pressure on net interest margins led them to expand to riskier segments. They sharply increased consumer lending to the real estate industry and to SME enterprises. There was also a general perception that real estate prices will never fall. Banks kept injecting new funds into unprofitable "zombie firms" to keep them afloat, arguing that they were too big to fail. However, most of these companies were too debt-ridden to do much more than survive on bail-out funds.

iv. Banks primarily used property as collateral and not Cash Flow analysis. To speed up credit approval, banks transferred risk evaluation to independent monitoring bureaus that reported directly to the banks' sales divisions.

v. The plaza accord was signed between Japan, America and 3 more countries. The Plaza accord was signed to devalue the Dollar against the Yen and German Mark. This led to a larger than expected appreciation of the Yen (around 46%). This had a significant impact on Japan's exports. The Japanese authorities were overly concerned about the effect of yen appreciation and overreacted to a slowdown in the first half of 1986, which led them the implement "a sizeable macroeconomic stimulus" that year.

vi. Taxes and regulations biased towards accelerating rise in land prices. Inheritance tax and corporate income tax favored unrealized capital gains in real estate.

Impact

i. By 1989, Japanese officials became increasingly concerned with the country's growing asset bubbles and the Bank of Japan decided to tighten its monetary policy. Soon after, the Nikkei stock bubble popped and plunged by nearly 50% from approximately 39,000 to 20,000 during the year 1990, hitting 15,000 by 1992. By year 2000, commercial land values in the six major metropolitan areas had fallen by 80% from their peak level in 1991. Residential and industrial land values also had fallen by nearly 20%.

ii. Japan's banks are allowed to hold equities as part of their capital base. The value of the unrealized capital gains on such stock holdings dropped from $355 Bn in 1989 to about $40 Bn in 2002. This drastically reduced key capital reserves for many banks.

iii. What began as a financial and banking crisis soon caused the overall Japanese economy to slow. As the economy stagnated, companies faced excess capacity, excess inventories, and lower profits. Also, as more and more loans turned sour, more and more of the underlying real estate had to be sold at "bargain" prices.

iv. Economic growth rates fell from more than 5% per year during the late 1980s to less than 2% per year during the first half of the 1990s.

Solutions and Consequences

i. Monetary policy was tightened in 1989. The official discount rate (ODR) rose from 2.5%, where it had been since 1987, to 3.25% in May 1989. The ODR rose to 3.75% in October and 4.25% in December. Despite this rapid hike of the interest rate, the CPI inflation rate rose from 1% at the beginning of 1989 to 3% toward the end of the same year. The official discount rate was raised to 6.00% in August 1990 (a 350 basis point hike in fifteen months).

ii. Monetary policy responded slowly to the crisis, partly because – even two years after the stock market crash – neither the central bank nor other market observers anticipated a protracted slowdown of the economy. As inflation expectations also remained low, this kept long-term real interest rates relatively high, while credit contracted.

iii. On the fiscal side, Japan's initially low public debt level and its large current account surplus led the government to counter the economic stagnation with fiscal stimuli. Deteriorating revenues and rising social security spending also contributed to the increase in the fiscal deficit in the early 1990s. To consolidate public finances, the government raised value-added taxes in 1997 with the onset of the Asian crisis, which some observers regard as having postponed the recovery. From 1998 onwards, fiscal policy became increasingly expansionary, although the fiscal impulse of additional spending remained limited, partly because fiscal spending multipliers declined after 1990. This reflected a shift from public investment to social security spending. Moreover, amid the ongoing deleveraging, the private sector may have been less responsive to the fiscal stimulus. Over the years, expansionary fiscal policies have stretched public debt levels, reaching over 200% of GDP in 2010.

iv. In 1992, the government authorized the creation of the Cooperative Credit Purchasing Company (CCPC) to help banks dispose of non-performing loans. In 1993, the top 21 banks sold ¥1.3 trillion in nonperforming loans to the CCPC, an amount that accounted for 54% of all loans written off in that year. Despite billions of dollars in write-offs, however, nonperforming loans appeared as fast as they were being taken off the books. Over the crisis, Japan's banks wrote off a cumulative total of $330 Bn (¥43.2 trillion) or 8.4% of total lending.

v. Many construction and real estate companies were virtually bankrupt, since the market value of real estate in inventory had become much lower than their purchase values, and cash flows were dwindling. As a result, these companies were having trouble making interest payments on their bank loans. However, the banks, fearing that losses would become apparent and having a false belief the real estate market would rebound soon, kept lending to these companies that could not service their debt.

vi. In 1995, the Ministry of Finance on the one hand guaranteed all deposits, suspending the deposit insurance ceiling, and on the other hand declared that no major bank would fail.

vii. From 1997 to 1998, Japanese financial markets suffered from a severe crisis, as banks lost capital due to high ratios of nonperforming loans and falling asset prices. Three large banks failed, and other banks were also suffering from declining capital. Banks curtailed lending and a severe credit crunch was observed. The resulting negative effects on aggregate demand then pushed the economy into deflation.

viii. The government finally decided to inject capital into the banks. The first capital injection in March 1998 turned out to be insufficient but the second capital injection of March 1999 finally calmed the market. By then, the government had invested $495 Bn, or 12% of GDP, for the financial support of banks.

ix. By September 2005, the banks reported 3.5% of their total lending as non-performing, a level considered to be tolerable.

Resonance to Kuwait

i. Real estate prices are at an all-time high in Kuwait.

ii. Post bubble collapses can have lasting effects on Investor Confidence.

iii. Rapid decline in real estate values could have an adverse effect on the Banking system.

Asian Currency Crisis (1997)

Background

i. In the 1990's, there were large inflows of capital into Asia ranging from 3% to 10% of GDP within different countries. These inflows were intermediated through weak financial institutions that were often undercapitalized and poorly regulated. Given the fixed rate currency which encouraged external borrowing and led to excessive exposure to both the financial and corporate sectors
ii. Before the crisis, most Asian countries managed to avoid substantial currency appreciation which is usually related to such inflows due to tight fiscal policies and monetary policies with the objective to curb currency appreciation. Further, large current account deficits emerged in all of the countries. However, these factors did represent some minor aspects of a problem but there was no evidence of a major macroeconomic problem.
iii. Rise of financial fragility due to an increase in bank lending heavily collateralized by high priced properties. Several countries, notably Korea, Indonesia and Thailand, built up high levels of short term debts relative to reserves. External short term debts were high due to financial and external deregulation and due to the incentive that the fixed exchange rate regime and sterilization of capital inflows gave to intermediate foreign loans.
iv. In Thailand, Baht was pegged to the dollar. However, given the lack of foreign currency it could not maintain to be pegged to the dollar. Further, Baht was under serious speculative attacks and markets lost confidence in the economy. Changes in investor sentiment fueled the fire of the crisis triggered by the devaluation of Thai Baht as there was no particular evidence of fundamental deterioration before the crisis.
v. In Korea, financial situation was bad as they had low ratios of corporate profits to interest costs given the decline in trade and appreciation of the won vis a vie the yen. Further, availability of finance in Korea was drying up due to the reserves being illiquid as they were placed in foreign branches of Korean banks.

Impact

i. In Thailand, the stock market fell by 75%. The Thai baht was devalued and Finance One, the biggest Thai finance company, collapsed. Further, the Thai Baht was floated in 1997.
ii. The closure of insolvent financial institutions was a key feature of programs in Thailand, Korea and Indonesia. The Thai authorities suspended 58 companies in 1997 and intervened in 4 of the weak domestic banks. Indonesian authorities closed 23 small banks in 1997 and 1998. Further, in Korea 14 merchant banks were closed between December to April 1998.
iii. As the Indonesian rupiah's currency trading band moved from 8% to12% as a result of the Thai Baht being floated leading to severe attacks on the rupiah. Hence the rupiah declined by 83% compared to the US dollar between July 1997 and July 1998.

Solutions and Consequences

i. Emergency official liquidity support was designed to cushion the blow of the rapid capital outflow that characterized the crisis. The three severely affected countries, Thailand, Indonesia and Korea, were committed support of $17 Bn, $42 Bn and $58 Bn respectively. However, due to the lack of market-based recapitalization Thailand announced a new program in August 1998 that involved a greater commitment of public funds to assist in the recapitalization of viable banks and finance companies as well as stronger incentives to accelerate corporate restructuring.
ii. The shock decline in investor confidence, collapses in the exchange rate, increase in interest rates, and decline in real activity magnified initial weakness and left large elements of the financial and corporate sectors in deep financial distress.
iii. The closure of insolvent financial institutions was a key feature of programs in Thailand, Korea and Indonesia. The Thai authorities suspended 58 companies in 1997 and intervened in 4 of the weak domestic banks. Indonesian authorities closed 23 small banks in 1997 and 1998. Further, in Korea 14 merchant banks were closed between December to April 1998. Although the closure of financial institution did not always have the desired effect on the financial system however it brought about certain reforms. Reforms introduced, given the number of insolvencies of many financial institutions, were that the regulatory environment has been designed to encourage faster recapitalization through the injection of private capital. Further, all countries have enacted measures to strengthen regulation and supervision, capital adequacy requirements, and loan provisioning and classification rules.

iv. Bank of Thailand initially supported the currency largely through an unreported forward sale of baht, with the stock of forward sales outstanding rising from about $5 Bn in 1996 to $30 Bn in 1997. The government also supported the financial institutions by spending several percentage of GDP. The closure of financial institutions and accelerated forward sales of foreign exchange did not remove pressure on the exchange rate leading the Thai Baht to be floated.

v. Monetary policy in Korea and Thailand were similar as nominal interest rates were raised significantly and real rates reached peaks of more than 20% in Korea and about 15% in Thailand before declining gradually. From mid-1998 on, nominal and real interest rates in both countries were at or below pre-crisis levels, as market pressures abated and currencies strengthened.

vi. Further, in Korea, support was given as the bank creditors in Korea agreed to roll-over their short term claims of $22 Bn on Korean banks to medium term loans at higher interest rates.

Resonance to Kuwait

i. Regional or global credit crunches could send a contagion to Kuwait resulting in a decline in value of the KD. Although the CBK generally defends the KD where earlier it used to be pegged to the USD and later to an undisclosed basket of currencies however it is not necessary that they may continue to do so given lower oil prices and possibility of a fall in forex reserves, could change CBK's strategy in the long term.

ii. Crony Capitalism leads to a misallocation of investments, poor returns and reduced economic efficiency.

iii. Authority by the government to intervene and enforce closure of insolvent financial institutions.

Russian Currency Crisis (1998)

Background

i. Inflation had fallen from 131% in 1995 to 22% in 1996 and 11% in 1997. Oil (45% of Russia's exports) was selling at an average of $23 a barrel in 1997.

ii. Despite the prospects for optimism, problems remained. On average, real wages were less than half of what they were in 1991, and only about 40% of the work force was being paid in full and on time. Per capita direct foreign investment was low, and regulation of the natural monopolies was still difficult due to unrest in the Duma.

iii. Unable to raise adequate tax collection and prohibited by the IMF from borrowing from the Central Bank of Russia (CBR), in the period from 1995 to 1997, Russia had to increase GKO's (short-term bills) and OFZ's (long-term bonds). In order to attract more funds, the annualized yields on Russia's government securities were much higher than the other countries, as high as 30%.

iv. From 1995 to 1997, the debt/GDP ratio was roughly constant in spite of primary deficits. In 1998, it climbed to approximately 75% and even the interest payment occupied 43% of total revenue.

v. The stability of the debt/GDP ratio was not due to sound economic fundamentals but due to a one-shot currency appreciation. The over-valued currency was supported by debts, and then attracted more debts with high fiscal cost from debts. Many oligarchs gained gigantic debt in the dollar market with currency risk, and then purchased a huge amount of Russia's government securities to make a profit from the difference in interest rates.

vi. Privatization did not lead to more efficient and better-run enterprises in Russia. The first reason was the nature of the privatization program itself. Some 15,000 industrial enterprises were "mass privatized", with control often going to insiders. In the "loans-for-shares" scheme carried out in late

vii. 1995, Russian banks lent the government money collateralized with the shares of valuable companies in oil, metals and telecoms, with the provision that if the loans were not repaid, the banks would acquire the shares.

viii. The original fiscal program targets agreed to between Russia and the IMF were met in 1995 but greatly exceeded thereafter; in fact, the fiscal deficit went up sharply after 1995 instead of shrinking. This meant more borrowing than anticipated, hurting credibility and pushing up real interest rates.

ix. Oil prices fell by 35% in 1998 relative to 1997 with a significant negative impact on the current account balance; but oil revenues declined by less than 1 percentage point of GDP while implicit subsidies rose by a whopping 3.3 percentage points of GDP.

x. The proliferation of soft budgets via the so-called "non-payments system." Non-payments consisted of: (i) arrears which grew from 15% of GDP at end-1994 to an astonishing 40% of GDP at end-1998; and (ii) growing use of non-cash settlements (NCS), in enterprise operations. This dramatically reduced tax collections.

xi. Restrictions on the purchase of government securities by non-resident investors were removed. By the end of 1997, approximately 30% of the GKO market was accounted for by non-residents. This policy was a colossal mistake, because it allowed foreign speculators access into Russia more easily. Most of the foreign capital flow entered Russia merely for short-time speculation and not for long-time investment. When facing a currency crisis, these funds would withdraw instantaneously.

xii. President Yeltsin abruptly fired his entire government, including Prime Minister Viktor Chernomyrdin. In a move that would challenge investor confidence even further, Yeltsin appointed 35-year-old Sergei Kiriyenko in March 1998, a former banking and oil company executive who had been in government less than a year, to take his place.

xiii. The Asian Crisis brought speculative attack on the ruble on November 1997. The decrease of oil and nonferrous metal prices also hit Russian economy heavily.

Impact

i. By May 1998, government bond yields had swelled to 47%. With inflation at about 10%, Russian banks would normally have taken the government paper at such high rates. Lack of confidence in the government's ability to

repay the bonds and restricted liquidity, however, did not permit this. As depositors and investors became increasingly cautious of risk, these commercial banks and firms had less cash to keep them afloat. The federal government's initiative to collect more taxes in cash lowered banks' and firms' liquidity.

ii. CBR responded by raising lending rate to banks from 30 to 150% and defended the ruble with $1 Bn. The reluctance of the CBR to float the ruble caused a build-up of expectations of depreciation and a return to constantly high real interest rates. Even when the yields were more than 50%, the government failed to raise enough bonds to refinance the old debt coming due. Most of the GKO's and loans of $2.5 to $3 Bn from foreign investors were to come due in 1998.

iii. Meanwhile, oil prices had dropped to $11 per barrel, less than half their level a year earlier. Oil and gas oligarchs were advocating a devaluation of the ruble, which would increase the ruble value of their exports. In light of this, the CBR increased the lending rate again, this time to 150%.

iv. The massive loan package exacerbated the banking and currency crisis, whilst the massive capital outflow put irresistible pressure on the ruble. Although Russia's government formed and advertised one anti-crisis plan in summer, the IMF did not approve additional assistance until July. Russia used up the entire $4.8 Bn of the new loan in a failed attempt to support the ruble, which served only to assist capital flight. At this time, any financial assistance in these circumstances might merely facilitate private exit. Unsurprisingly, the Fund's assistance did not provide much relief, because Russia had lost so much liquidity and the confidence of investors had been destroyed.

v. Finally, with the severe fiscal deficit and uncontrollable gigantic debts, on August 17 1998, Russian officials were left with little choice and declared the default and devaluation. Russia declared a 90-day moratorium on payment to foreign creditors. Since this devaluation, a number of banks collapsed and a large number of households lost their savings and many were left jobless.

vi. In 1998, real output in Russia shrank by 4.9% and inflation was as high as 84%. All of the Russian stock, bond, and currency markets collapsed. The stock market had lost more than 75% of its value annual yields on ruble denominated bonds were more than 200%.

vii. The financial havoc has a large impact on the global financial markets and contributes to the collapse of hedge fund LTCM, which requires a USD 3.6 Bn bailout.

viii. In the months following the crisis, a bank restructuring strategy was implemented, which resulted in the closure of a large number of banks. Large numbers of deposit holders thereby lost their savings. Furthermore, a new, core group of viable institutions had to be established. The impact of the collapse of the banking sector on Russia's corporate sector was rather limited, as the banking sector was not a major source of finance for most companies. Furthermore, only a limited amount of firms had access to international financing.

Solutions and Consequences

i. Despite repeated requests from November of 1997 to February-March 1998 Russia's policymakers did not manage to obtain financial assistance from the IMF. After difficult negotiations, the IMF agreed to support $11.2 Bn of new funds. It is estimated that the total debt for Russia was, at least, $200 Bn in 1998.
ii. During the summer of 1998, the Russian economy was primed for the onset of a currency crisis. In an attempt to avert the crisis, the CBR intervened by decreasing the growth of the money supply and twice increasing the lending rate to banks, raising it from 30% to 150%. Both rate hikes occurred in May 1998, the same month in which the Russian stock market lost 39% of its value. The rise in interest rates had two effects. First, it exacerbated Russia's revenue problems. Its debt grew rapidly as interest payments mounted. This put pressure on the exchange rate because investors feared that Russia would devalue to finance its non-denominated debt. Second, high government debt prevented firms from obtaining loans for new capital and increasing the interest rate did not increase the supply of lending capital available to firms.
iii. Even without access to financial markets, the government managed to eliminate the deficit by mid-1999 - one year before oil prices began to recover. Though there were no haircuts and the debt was eventually repaid, maturity on much of it was extended; sharply reducing the debt servicing and refinancing needs for the period over which the adjustment took place.
iv. In addition, tax revenues rose as raw material exporters saw profits grow amid the ruble's massive devaluation. High annual inflation also increased revenues in nominal terms while the government followed a rigid spending policy and refused to index public wages and pensions.
v. Russian real GDP growth grew 8.3% in 2000 and roughly 5% in 2001 - lower but still positive. Imports trended up in the first half of 2001, helping to create a trade balance. At the same time, consumer prices grew 20.9% and 21.6% in 2000 and 2001, respectively, compared with a 92.6% increase in 1999. Most of the recovery so far can be attributed to the import substitution effect after the devaluation; the increase in world prices for Russia's oil, gas, and commodity exports; monetary policies; and fiscal policies that have led to the first federal budget surplus (in 2000) since the formation of the Russian Federation.

Resonance to Kuwait

i. Caution is advisable when countries are going through major transitions.
ii. Rules-of-thumb indicators in assessing the strength of a country's fundamentals may not always show the true picture.
iii. A fundamental inconsistency developed between the government's desire to vanquish inflation while maintaining large subsidies.
iv. A fixed exchange rate and a Central Bank willing to defend it could invite speculative attacks to the currency in light of lower sustained oil prices and burn rate of forex reserves. As an example, given the low oil prices, Saudi Arabia is burning through its foreign reserves at an unsustainable rate to maintain its peg against the dollar. However this has led the 12 month forward rate has rocketed from 3.7563 SAR to USD to 3.8494 SAR to USD indicating a possible devaluation of 2.5%.

Dotcom Bubble (2000)

Background

i. Capital was easily available due to low interest rates which helped to increased start-up amounts and the Federal Reserve created too much money in FY 1999 to fend off expected deflation of the millennium impact. Moreover, the Asian crises triggered outflows from the Asian countries towards America.
ii. Rapid growth was seen in the stock price of dotcom companies which were fueled by the novelty of the new industry with high potential. Initial IPO's of the dotcom companies were recording high prices.
iii. Dotcom companies were difficult to value which led to overvaluation of companies. Research indicated that the newer dotcom companies were 40% overvalued.
iv. They had flawed business models which sustained losses in order to create brand awareness and its survival depended on rapid expansion of its customer base. The dotcom companies had leeway to spend investor's money without being monitored.

v. Prices for non-tech companies soared in tandem without any correlation to their fundamentals
vi. In America, the ratio of outstanding debt as percentage of personal disposable income stood at about 97%. Further, dividends were taxed higher leading to preference for capital gains.
vii. NASDAQ stock index increased from circa 1,500 in January 1998 to circa 4,900 points in March 2000.

Impact

i. Within a year after the start of the deflation, most of the venture capital backed technology companies had burned all their funding and many went bankrupt as new funding dried up
ii. In March 2000, nearly a trillion dollars' worth of stock value had completely evaporated in less than a month
iii. NASDAQ crashed from a peak of circa 5,048 points in FY 2000 to a trough circa 1,114 points by FY 2002.

Solutions and Consequences

i. In 2001, the U.S. economy experienced a post dot-com bubble recession, which forced the Federal Reserve to repeatedly cut interest rates. The Federal Reserve cuts rates from 6% in January to 3.5% in August 2001. After 9/11, the Federal Reserve continued to reduce rates to 1.75%. Further, in November 2002, rates were reduced again to 1.25%. Moreover, in FY 2003, amidst concern of deflationary, rates were dropped to 1%.
ii. The dotcom crash has resulted in businesses and market in becoming more cautious and being more focused on company performance and results as compared to pre-crisis levels.
iii. The burst of the dotcom bubble led to job losses for technology professionals. Further it gave light to numerous accounting scandals in which technology companies had artificially inflated their earnings

Resonance to Kuwait

i. Unprecedented growth in prices for companies without any correlation to their fundamentals can have a lasting impact.
ii. Need to thread with caution with companies that are difficult to value.

Housing Bubble & the Subprime Mortgage Crisis (2008)

Background

i. In response to the crash of the dot-com bubble in 2000 and the subsequent recession that began in 2001, the Federal Reserve Board cut short-term interest rates from about 6.5 % to 1%.
ii. Between 1996 and 2004, the U.S. current account deficit increased by $650 Bn, from 1.5% to 5.8% of GDP. The U.S. attracted a great deal of foreign investment, mainly from the emerging economies in Asia and oil-exporting nations. The balance of payments identity requires that a country (such as the U.S.) running a current account deficit also have a capital account (investment) surplus of the same amount. Foreign investors had these funds to lend, either because they had very high personal savings rates (as high as 40% in China), or because of high oil prices. This inflow of funds combined with low U.S. interest rates contributed to easy credit conditions, which fueled a bubble.
iii. An increase in loan incentives such as easy initial terms and a long-term trend of rising housing prices had encouraged borrowers to assume difficult mortgages in the belief they would be able to quickly refinance at more favorable terms. The U.S. ownership rate increased from 64% in 1994 to an all-time high peak of 69.2% in 2004. The demand helped fuel the rise of housing prices and consumer spending, creating an unheard of increase in home values of 124% between 1997 and 2006.
iv. As part of the housing and credit booms, the amount of financial agreements called mortgage-backed securities (MBS), which derive their value from mortgage payments and housing prices, greatly increased. Such financial innovation enabled institutions and investors around the world to invest in the U.S. housing market.
v. Mortgage companies in the US borrowed from other financial institutions to lend mortgages. They sold collateralized mortgage debt in the form of CDOs to other banks and financial institutions. This was a kind of insurance for the mortgage companies. It means that other banks shared the risk of these subprime mortgages. Given these subprime mortgage debts were bought by 'responsible' banks like Morgan Stanley, Lehman Brothers etc. risk agencies gave these dubious and risky debt bundles triple-A safety ratings. Thus, banks either ignored or were unaware of how risky their financial position was.

vi. Investors purchasing MBS profited at first because rising house prices protected them from losses. When high-risk mortgage borrowers could not make loan payments, they either sold their homes at a gain and paid off their mortgages, or borrowed more against higher market prices. The riskiness of MBS's may not have been well-understood due to periods of rising home prices and expanded mortgage availability, which were relatively unprecedented, and new mortgage products' longer-run sustainability which was also untested. On a practical level, risk was "off the radar screen" because many gauges of mortgage loan quality available at the time were based on prime, rather than new, mortgage products.

vii. Along with the rise of unregulated lenders came a rise in the kinds of subprime loans that economists say have sounded an alarm. The large number of adjustable rate mortgages, interest-only mortgages and "stated income" loans are an example of this thinking. "Stated income" loans, also called "no doc" loans and, sarcastically, "liar loans," are a subset of Alt-A loans. The borrower does not have to provide documentation to substantiate the income stated on the application to finance home purchases.

viii. The boom in mortgage lending, including subprime lending, was also driven by a fast expansion of non-bank independent mortgage originators which despite their smaller share (around 25% in 2002) in the market have contributed to around 50% of the increase in mortgage credit between 2003 and 2005.

ix. Mortgage underwriters determine if the risk of lending to a borrower under certain parameters is acceptable. Most of the risks and terms considered by underwriters fall under three categories - credit, capacity and collateral. In 2007, 40% of all subprime loans were generated by automated underwriting. Automated underwriting meant minimal documentation and much quicker decisions, sometimes as soon as within 30 seconds as opposed to the week it would take for an underwriter to generate a decision.

x. Credit rating agencies are now under scrutiny for giving investment-grade ratings to securitization transactions holding subprime mortgages. Higher ratings theoretically were due to the multiple, independent mortgages held in the mortgage-backed securities, according to the agencies. Critics claim that conflicts of interest were involved, as rating agencies are paid by those companies selling the MBS to investors, such as investment banks.

xi. While housing prices were increasing, consumers were saving less and both borrowing and spending more. Household debt grew from $705 Bn at year-end 1974, 60% of disposable personal income, to $7.4 trillion at year-end 2000, and finally to $14.5 trillion in mid-year 2008, 134% of disposable personal income. During 2006, 22% of homes purchased (1.65 Mn units) were for investment purposes, with an additional 14% (1.07 Mn units) purchased as vacation homes. During 2005, these figures were 28% and 12%, respectively. In other words, record levels of nearly 40% of homes purchased were not intended as primary residences.

xii. Between 2004 and 2006, the Federal Reserve Board raised interest rates 17 times, increasing them from 1% to 5.25%. The Fed stopped raising rates because of fears that an accelerating downturn in the housing market could undermine the overall economy.

xiii. By early January 2007, the United States' subprime mortgage industry started to show signs of collapsing from higher-than-expected home foreclosure rates. As homeowners fell behind in their mortgage payments in ever-growing numbers, foreclosures continued to rise and interest rates rose to their highest level in years. These conditions left subprime lenders unable to finance new loans.

xiv. By January 2008, the inventory of unsold new homes was 9.8 times the December 2007 sales volume, the highest value of this ratio since 1981.

xv. The regulatory system in the US was weak and balkanized. A lack of uniform standards allowed big financial institutions to play regulators off each other to get the most accommodative regulations. Banks also shunted low quality assets into structured investment vehicles (SIVs), so that these assets do not tar their balance sheets. Regulators were aware of this but did not take action. In 2006, President Bush signed the Financial Services Regulatory Relief Act, which allowed banks to keep less capital in reserve.

Impact

i. By March 2007, the U.S, subprime mortgage industry had collapsed. More than 25 subprime lenders had declared bankruptcy, announced significant losses or put themselves up for sale. The stock of the nation's largest subprime lender, New Century Financial, plunged 84% amid Justice Dept. investigations before filing for Chapter 11 bankruptcy on April 2, 2007, with liabilities exceeding $100 Mn.

ii. On July 19, 2007, the DJ Industrial Average hit a record high, closing above 14,000 for the first time. By Aug 2007, the Dow had dropped below 13,000, and the S&P had crossed into negative territory year-to-date. Similar

drops occurred in virtually every market in the world. Large daily drops became common, with, for example, the Korea Composite Stock Price Index dropping about 7% in one day.

iii. Due to the collapsing subprime market, Ameriquest, formerly the country's largest subprime lender closed its doors and laid off 3,800 employees. In addition to the plunge in the housing market, Ameriquest made a $325 Mn settlement with 30 states' Attorneys General over deceptive marketing and lending practices.

iv. The Federal Reserve Board reported on March 2008, that Americans' percentage of equity in their homes has fallen below 50% for the first time on record. Homeowners' percentage of equity declined to 47.9% in the fourth quarter of 2007 - the third straight quarter it was under 50%. The decline means that for the first time since the Fed starting tracking the data, in 1945, homeowners' debt on their houses exceeds their equity.

v. By September 2008, the US government had to bail out Fannie Mae and Freddie Mac – two huge firms that had guaranteed thousands of sub-prime mortgages. Heavily exposed to the sub-prime mortgage market, the American Bank Lehman Brothers filed for chapter 11 bankruptcy protections, prompting worldwide financial panic. US investment banks are pummeled on the stock markets and Goldman

vi. Sachs and JP Morgan Chase changed their status to banking holding companies, marking the end of the investment banking model dominant during the noughties.

vii. Iceland's three biggest commercial banks – Glitnir, Kaupthing, and Landsbanki – collapsed. To protect the deposits of their many British customers, Gordon Brown used anti-terror legislation to freeze the assets of the banks' UK subsidiaries.

viii. In September 2008, when the U.S. House of Representatives failed to pass the Treasury's bailout plan, the S&P 500 fell 8.8%, its largest one-day percentage decline since Black Monday in 1987.

ix. By October 2008, the British government bailed out several banks, including the Royal Bank of Scotland, Lloyds TSB, and HBOS. In a few weeks, executives of Ford, GM, and Chrysler testified before Congress, requesting access to TARP loans. The Dow Jones fell below 9,000 for the first time in five years and briefly dipped below 8,000.

x. According to the Asian Development Bank, the total amount of world-wide write-downs of financial institutions amounted to $965 Bn as of December, 2008. Of this amount, the United States had the largest write-downs of $664 Bn. East Asian banks had limited exposure to US structured credit products, as compared with European banks. The ratios of structured investment to equity were only 16% (Taiwan), 10% (Hong Kong), 5% (Philippines), 3.8% (China, Thailand), 3% (Singapore), 2% (Korea), and 1% (Malaysia), according to the IMF (2008).

xi. George Papandreou's socialist government is elected in Greece towards the end of 2009. A week after entering office, he revealed that the hole in Greece's finances is double to what was previously feared. By April 2010, Greece's debt is downgraded to junk.

xii. The SEC sued Goldman Sachs for fraud, for allegedly having failed to disclose vital information to investors in one of its "Abacus" mortgage-backed CDOs in 2007. The CDO was allegedly 'designed to fail' by the hedge fund of John Paulson, so that Paulson could make large profits by betting against it. Allegedly this was not disclosed to investors by Goldman, and they lost roughly a billion dollars, while Paulson & Co profited.

xiii. In 2011, Portugal and Greece are bailed out by the ECB. In the same year, S&P downgraded US sovereign debt.

xiv. A report in January 2011 stated that U.S. home values dropped by 26% from their peak in June 2006 to November 2010, more than the 25.9% drop during 1928 to 1933 when the Great Depression occurred.

xv. The ratios of household debt to GDP were 13% in China, 70% in Japan, 80% in Korea - lower than the United States (90%), the United Kingdom (100%), and Iceland (103%). This could thus have helped to mitigate the deflationary impact of the financial sector problems on households, and thus their consumption growth.

xvi. Globally, an approximate of 9 million jobs were lost as a result of the financial crisis during FY 2008 and FY 2009.

xvii. The U.S. lost $7.4 trillion in stock wealth from July 2008 to March 2009, according to the Federal Reserve. This is roughly $66,200 on average per U.S. household. The U.S. lost $3.4 trillion in real estate wealth during the same period according to the Federal Reserve. This is roughly $30,300 per U.S. household. Further, 500,000 additional foreclosures began during the acute phase of the financial crisis than were expected, based on the September 2008 CBO forecast.

xviii. While most East Asian currencies depreciated against the US dollar from late 2008, the Japanese yen and the Chinese yuan showed opposite trends. The Japanese yen appreciated sharply against the US dollar, because of the unwinding of the yen carry trade that was active prior to the subprime mortgage crisis. Japan's

real GDP remained at 2.4% in 2007, and then it went down to -0.6% in 2008. Its real GDP growth in the fourth quarter of 2008 was minus 12.7% (relative to the previous quarter, annualized), the scale of slowdown being much greater than in the United States (-3.8%), the United Kingdom (-5.9%) and the euro area (-5.7%).

Solutions and Consequences

i. Federal Reserve lowered federal funds rate from 5.25% in 2007 to 0.25% by end of 2008.
ii. Federal reserve, European Central Bank and other central banks purchased USD 2.5 trillion of government debt and troubled private assets from banks.
iii. Various countries also tried fiscal stimulus packages to jumpstart their economies. In the US, the stimulus in early 2008 amounted to only 1% of GDP, and took the form of tax rebates. Thus, it was not very effective in boosting aggregate demand, as cautious consumers chose save the tax rebates instead of increasing consumption.
iv. A few countries prohibited naked short selling in equities (France, Italy, and Japan etc.).
v. In the United States, under the Trouble Asset Relief Program (TARP) program $700 Bn was committed and $356.2 Bn was invested by FY 2009. TARP program was mainly designed to help:
   - American International Group with a bailout
   - Asset Guarantee Program for Citibank and Bank of America's loans
   - Automotive industry and Auto Supplier Support Program by guaranteeing debts and providing finance for continuing operations
   - Capital Purchase Program by preferred investments to raise reserves in banks and encourage lending
   - Consumer and Business Lending Initiative by providing support for private lending purchases of toxic assets
   - Public-Private Investment Program with the purpose of buying toxic assets using taxpayer funds
vi. TARP program is considered to be successful as it successfully helped to stabilize the economy only using $356.2 Bn out of the committed $700 Bn. Further, out of the $245 Bn that was invested in banks almost all of it including interest payments had been returned. The TARP program also helped to restore trust and remove fear.
vii. The American Recovery and Reinvestment Act (ARRA), also known as the Economic Stimulus package, was signed into law on February 19, 2009. The total budgetary cost was expected to reach about $840 Bn, comprising roughly $540 Bn in spending increases and $300 Bn in tax cuts through 2019. ARRA's spending and tax provisions are intended to spur economic and employment growth and designed to be implemented quickly. Indeed, more than 90% of the program's budgetary impact was realized by the end of December 2011.
viii. The act included direct spending in infrastructure, education, health, and energy, federal tax incentives, and expansion of unemployment benefits and other social welfare provisions.
ix. Fed's traditional role as the lender of last resort - involved the provision of short-term liquidity to banks and other depository institutions and other financial institutions. The measures included the traditional discount window, the crisis-related Term Auction Facility (TAF), Primary Dealer Credit Facility (PDCF), and Term Securities Lending Facility (TSLF). Given bank funding markets are global in scope; the Federal Reserve also approved bilateral currency swap agreements with several foreign central banks.
x. Fed's second set of tools involved the provision of liquidity directly to borrowers and investors in key credit markets. The crisis-related Commercial Paper Funding Facility (CPFF), Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), Money Market Investor Funding Facility (MMIFF), and the Term Asset-Backed Securities Loan Facility (TALF) fall into this category.
xi. As a third set of instruments, the Federal Reserve expanded its traditional tool of open market operations to support the functioning of credit markets, put downward pressure on longer-term interest rates, and help to make broader financial conditions more accommodative through the purchase of longer-term securities for the Federal Reserve's portfolio. For example, starting in September 2012, the FOMC decided to increase policy accommodation by purchasing agency-guaranteed mortgage-backed securities (MBS) at a pace of $40 Bn per month in order to support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate. In addition, starting in January 2013, the Federal Reserve began purchasing longer-term Treasury securities at a pace of $45 Bn per month. Starting in January 2014, the FOMC reduced the pace of asset purchases in measured steps, and concluded the purchases in October 2014.

Resonance to Kuwait

i. Swiftness in devising and implementing Trouble Asset Relief Program.
ii. Implementing American Recovery and Reinvestment Act (ARRA) to save and create jobs.
iii. Strict enforcement of corporate governance oversight.
iv. Oversight on compensation and compensation should be based on risk-adjusted performance.
v. Dodd Frank Act.

vi. Purchasing toxic assets from the banks with public private investment programs.

European Debt Crisis (2009)

Background

i. In 1992, members of the European Union signed the Maastricht Treaty - pledged to limit their budget deficit (3% of GDP) and debt levels (60% of GDP). However, in the early 2000s, some EU member states were failing to stay within the confines of the Maastricht criteria and turned to securitizing future government revenues to reduce their debts and/or deficits, side-stepping best practice and ignoring international standards. This allowed the sovereigns to mask their deficit and debt levels through a combination of techniques, including inconsistent accounting, off-balance-sheet transactions, and the use of complex currency and credit derivatives structures. For example, Greece suffered from lack of investor confidence in 2009 due to a high fiscal deficit, which was admitted by its government to be understated at 3.7% of its GDP instead of the actual figure of 12.7% and its public debt (over 113% of the country's GDP, far more than the limit of 60%).
ii. As a member of the Eurozone, countries do not have the power to devalue their currency or the monetary policy flexibility to take other actions to try and resolve the situation they find themselves in. This resulted in the loss of confidence in the countries which were affected; resulting in a rise in the bond yields required on their government debt. Given the high amounts of government debts in the Eurozone, bond yields reached a level where the government could no longer afford to service their debt. This forced the ECB to start buying Spanish and Italian bonds in an attempt to halt the surge in yields. This loss of confidence was fueled by downgrades from credit rating agencies, media speculation and speculators betting against the Euro and/or certain countries.
iii. Private sector behavior was neglected pre-crisis resulting in unsustainable credit and housing bubbles in countries such as Ireland and Spain. Moreover, once private sector was identified as vulnerable, there was a lack of effective tools to foster structural adjustments and it also lacked crisis-resolution mechanisms.
iv. In several countries, private debts arising from a property bubble were transferred to sovereign debt as a result of banking system bailouts and government responses to slowing economies post-bubble. For example, in Greece, the debt increase was associated with high public sector wage and pension commitments. European banks own a significant amount of sovereign debt, such that concerns regarding the solvency of banking systems or sovereigns are negatively reinforcing. Concerns intensified in early 2010 and thereafter, leading European nations to implement a series of financial support measures such as the EFSF and ESM.
v. Substantial inflation differentials stood within the European countries. Prices in countries such as Greece, Portugal and Spain rose rapidly and led to price competitiveness. However low inflation in countries such as Germany prevented in restoring price competitiveness.
vi. Other root causes for the Sovereign debt crises erupting in Europe were reportedly a mix of: weak actual and potential growth; competitive weakness; liquidation of banks and sovereigns; large pre-existing debt-to-GDP ratios; and considerable liability stocks (government, private, and non-private sector). Further, real estate bubble and financial crisis of 2007-2008 led to continuous slow growth which also contributed to the European debt crisis.

Impact

i. European nations contributed to average of 27% of the world GDP, while the Eurozone itself comes up with approximately 19.4% and 26% of global holdings of reserves in Euro. Hence, this crisis is not merely significant in affecting European economy, but more essentially, it caused a threat to the recovery pace of global economy due to the fact that Eurozone is a prominent economic partner for the rest of the world.
ii. Within the Euro zone, there were asymmetric shocks due to the sovereign debt crisis based on their individual conditions and associated vulnerabilities.

iii. Greece's debt rating was downgraded by Fitch to BBB+ from A1. S&P also downgraded Greek's credit rating is by three notches to CCC and Germany called for Greek bond holders to take a haircut. Greek bondholders agreed to take a 50% loss on the face value of their Greek debt. S&P also downgraded U.S debt to AA+ from AAA. Further, France and Austria lose their AAA ratings as Standard and Poors downgrades France, Austria, Spain, Italy and five other Eurozone members.

iv. Investors became increasingly worried about negative self-fulfilling market sentiments about the bond market of the Eurozone, and reacted by raising the spreads. Early 2010, Greece, Ireland, Portugal (6% of Eurozone GDP) faced difficulties in refinancing debt. Due to bonds being rated as junk by credit rating agencies, yield curve for PIIGS countries escalated above the rest.

v. The euro area deficit widened by 6.3 percentage points in 2010.

vi. The impact of the European debt crisis led to the depreciation of the euro against the US dollar in the foreign exchange market and contributed in increase in spot prices in the commodity markets for Gold. Further, Gold spot prices had risen 300% between 2006 and 2012.

Solutions and Consequences

i. From 2010 to 2012, the European Union (EU) and European Central Bank (ECB) attempted to deal with this architectural problem through piecemeal policies aimed at temporarily calming markets through the creation of European Financial Stability Facility (EFSF) and European Financial Stabilization Mechanism (EFSM). In concert with the EU and the International Monetary Fund (IMF), EFSF could provide up to €750 Bn in financial assistance to euro-member countries facing troublesome sovereign debt loads. Further, EFSM, created by the EU, had the authority to raise €60 Bn to help European states in economic difficulty. Moreover, another emergency measure taken by the EU was to increase the minimum level of bank capitalization to aid stability and strengthen the ability to withstand further shocks.

ii. EFSF provided Greece with a financial rescue package totaling more than €110 Bn ($155 Bn). Facing a stagnant economy, growing social unrest, an inability to meet fiscal deficit reduction targets, and a potential default on its maturing debt, Greece requested a second bailout package from the EU and IMF. In addition to providing additional loans to Greece, the EU forced the country to adopt more stringent fiscal austerity measures. The agreement also called for a voluntary debt exchange, in which Greek bond investors have several options to exchange bonds maturing in the next few years for new bonds with longer maturities, effectively extending the maturities of Greek bonds to avoid a near-term default. Separately, the EU sought to expand the role of the EFSF to buy bonds on the secondary market and provide funds to euro-member countries to recapitalize banks.

iii. Ireland, struggling with fiscal problems stemming from the government's decision to guarantee all debt incurred by the country's troubled banking sector, received an €85 Bn rescue package from the EFSF. The package was based on three pillars: namely, strengthening and comprehensive overhaul of the banking system, ambitious fiscal adjustment and growth enhancing reforms. A newly elected Irish government had implemented some fiscal austerity measures, but Ireland's fiscal viability hinged on a banking sector recovery.

iv. Portugal received €78 Bn in rescue funding from the EU and IMF. Portugal relies heavily on foreign creditors, and when were reluctant to lend—which had been the case as the country's fiscal woes had worsened—Portugal's economy grinded into a standstill.

v. The EU took steps to prevent the contagion from spreading to larger but fiscally vulnerable European countries, such as Italy and Spain. European Central Bank began buying Spanish and Italian bonds on the secondary market, and Italy approved new fiscal austerity measures.

Resonance to Kuwait

i. Windfall revenues associated with asset price bubbles can be mistakenly taken as permanent.

ii. Clear structural reforms: bank restructuring and recapitalization; labor and product market competition; and pension system reform.

iii. Kuwait must at all costs avoid the fiscal profligacy of a country like Greece if it is to avoid painful fiscal retrenchment.

iv. Tax income should be introduced at levels sufficient to finance spending without undue dependence on oil or debt financing.

Chinese Stock Market (2015)

Background

i. Investors inflated the stock market bubble through investments in stocks using borrowed money, exceeding the rate of economic growth and profits of the companies they were investing in. Further, liberalizing laws and increase in number of companies going public helped fuel growth. Moreover, the investor's investments were based on what the government will do to prop up the market rather than what the economy was doing.
ii. Chinese Yuan is pegged to the dollar and had been artificially kept low even as the exports revenues and foreign investment gushed in which allowed China to amass huge reserves.
iii. Chinese big four state owned banks offer savings accounts that pay interest rates which are lower than the inflation rates.

iv. The growth was fueled by cheaper currency in an investment-driven model. However, the inflation was kept low by setting its bank requirements at unusually high rates. During the sub-prime mortgage crisis, the Chinese government injected 4 trillion Yuan in the economy and increased their dollar reserves in order to prevent the demand to increase the currency value.
v. Growth slowed down leading the $28 trillion Chinese debt harder to pay and the government spent $ 1 trillion to prop up stocks. In late 2014, speculative investment flooded out of China which led to lower demand for the yuan but the People's bank of China (PBoC) wanted to keep the Yuan stable. In order to do so, the PBoC had to sell dollars from their reserves in exchange for yuan. This led to lowered liquidity and raised borrowing costs which exacerbated the country's $28 trillion debt.
vi. The crash occurred two weeks after the devaluation of the Yuan. Yuan was allowed to depreciate only 3% before the government came in and increased the value again.

Impact

i. By July 2015, the Shanghai stock market had fallen 30% over three weeks as 1,400 companies, or more than half listed, filed for a trading halt in an attempt to prevent further losses.
ii. Values of Chinese stock market continued to drop despite efforts by the government to reduce the fall. After three stable weeks the Shanghai index fell again on 27 July by 8.5%, marking the largest fall since 2007. However, the rise of share price before the crisis was much greater than fall hence the share prices post crisis is higher than the prices at the turn of the year.
iii. Global companies that relied on the Chinese market suffered from the crash. Stocks that they own were devalued $4 trillion.

Solutions and Consequences

i. Given the drop in the stock market, the effects of the recent financial crash on the Chinese economy have been relatively limited due to the nature of investors' exposure to losses. The exposure to stocks account for less than 15% of household financial assets as compared to USA where 55% of citizens have invested their savings in the stock market. Moreover, the floating value of the Chinese government is only a third of GDP as compared to 100% in the US & UK.
ii. To help keep credit flowing, the Chinese government launched a bailout in early July 2015 of more than $1 trillion. To fund this bailout, interbank lending by state-backed entities has surged. In July, government institutions lent 9.3 trillion yuan to banks, mostly to boost the stock market. Moreover, In order to prevent further loss in the stock market, the Chinese authorities imposed certain restrictions as follows:
    - Regulators limited short selling under threat of arrest
    - Large mutual funds and pension funds pledged to buy more stocks
    - The government stopped initial public offering
    - The government also provided cash to brokers to buy shares, backed by central-bank cash
    - China Securities Regulatory Commission (CSRC) imposed a six-month ban on stockholders owning more than 5% of a company's stock from selling those stocks, resulting in a 6% rise in stock markets that is 1,300 firms, representing 45% of the stock market, suspended the trading of stocks
    - Interest rates were cut

iii. Beijing outlined a reform agenda for the financial sector to promote progressively integrating the country into global financial markets. Major steps foreseen included establishing private financial institutions, developing capital markets, liberalizing interest rates, and promoting capital account convertibility.
iv. To reinforce China's role in the global economy, Beijing has also made the inclusion of its currency in the IMF's special drawing rights (SDR) currency basket as a national priority. In order to do so, Beijing has loosened government control on the yuan to allow it to drop to portray a policy shift as a step towards freer exchange rate.

Resonance to Kuwait

i. Artificially lowering currency leads to cheaper exports and enhanced growth however any curb in growth rates can have a lasting effect.
ii. Debt driven investment models with inflation rates artificially kept low could lead to high debt burdens in the event of subdued growth.

International Regulation

Public Company Accounting Reform and Investor Protection Act (Sarbanes-Oxley Act 2002)

Post the dotcom bubble and the accounting scandals, the government passed the Public Company Accounting Reform and Investor Protection Act (Sarbanes-Oxley Act, SOX) in the year 2002 which introduced oversight and eliminated self – regulation of the auditing profession. SOX set standards for audit reports and requires all firms that audit public companies to register with them. It inspects, investigates and enforces compliance from these firms. It also focuses on internal controls and increases responsibilities of the management. SOX established Public Companies Accounting Oversight Board (PCAOB) with a mission to protect the interest of the investors and further public interest in the preparation of informative, accurate and independent audit reports.

Key Points

i. PCAOB sets ethics and accounting standards. It also actively conducts inspection of registered audit firms and auditors and has the authority to discipline and impose fines, revoke their registration and bar individual auditor from any of the registered firms
ii. PCAOB enhances the role of audit committee and requires the audit committee to be independent of management with at least one financial expert and to be directly responsible for appointment, compensation and oversight of external auditor. Further, audit committee should establish procedure for receiving whistleblower complaints
iii. SOX prohibit auditors to provide non-audit services to audited companies. SOX require the audit committee to pre approve all audit and non-audit services. Further, SOX requires the lead audit partner to rotate every 5 instead of 7 years.
iv. SOX require CEO and CFO to certify all quarterly and annual financial reporting statements. SOX also require the CEO and CFO to acknowledge their responsibility for establishing and maintaining internal controls over the financial reporting and other disclosures. Further, SOX requires an annual evaluation and requires management report on the effectiveness of the internal controls. Moreover, SOX instituted claw back provision for CEO and CFO to give up bonuses after financial restatement
v. SOX require enhanced disclosure regarding material off-balance sheet transaction and arrangements and obligation. SOX also requires reporting on material changes in the financial condition and operations of the company.
vi. SOX require enhanced disclosure regarding material off-balance sheet transaction and arrangements and obligation. SOX also requires reporting on material changes in the

vii. SOX requires the board members of public companies, officers and investors who own more than 10% of the shares of a public company to file reports specifying the number of shares bought or sold within two days of the transaction. Further, board members and executive officers of public companies are prohibited from trading shares during a specific blackout period before and after earnings reports or when other material results are disclosed.

The SOX has been considered the most far-reaching legislation affecting public corporations and the independent auditors since 1930s. It has been successful in restoring investor confidence post the accounting scandals. SOX have had a positive impact on corporate transparency and governance. Further, SOX expanded SEC resources and provided it with more legal tools. The SOX has had a positive impact in US, key points are as follows:

i. The SOX helped in promoting shareholder confidence and attracts capital investment.
ii. SOX help in reducing risks of financial reporting restatements and fraud by focusing on quality audits and GAAP financial statements. SOX increases management accountability.
iii. SOX leads to more effective coordination with external auditors and efficient processes that provide annual cost savings;

iv. SOX helps employees gain increased understanding of internal controls to protect assets and maintain its market value;
v. SOX helps in communications and trains stakeholders of the business risks;
   - Criminal penalties are being enforceable by SOX for any breaches;
   - SOX establishes investor protection by providing enhanced disclosure;
   - SOX establish enhanced auditor independence by avoiding conflict of interests.

Conclusion

SOX's public reaction was positive and it has been successful in increasing corporate focus on a strong ethical culture in publicly owned companies. Overall there has an improvement in the quality of auditing and financial reporting.

Amendment

Housing and Economic Recovery Act of 2008:

All confidential information received by the PCAOB under the authority may be furnished to the Director of the Federal Housing Finance Agency, at the discretion of the SEC.

Jobs Act 2012:

Section 404 of the SOX Act was under pressure to be eased. The Congress eased this requirement with Jumpstart Our Business Startups Act (JOBS Act) which was passed in 2012. JOBS Act created a few exemptions, namely:

i. Exempted all companies defined within the Act as Emerging Growth Companies from complying with section 404(b) of the SOX.
ii. Exempted all companies defined in the Act as Emerging Growth Companies from complying with any new accounting standard until such date that private companies must comply, if such standard applies to private companies at all.
iii. Exempted all companies defined within the Act as Emerging Growth Companies from complying with any PCAOB rules requiring mandatory firm rotation or auditor discussion and analysis.
iv. Exempted all companies defined within the Act as Emerging Growth Companies from complying with other new auditing standards unless the SEC determines that the application of such standard is "necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation".

Dodd–Frank Wall Street Reform and Consumer Protection Act

Background

i. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) was created in response to the financial crisis of 2008, the Act was created to provide a wide variety of new regulatory and supervisory initiatives with the goal to promote a safer and sounder banking system.
ii. The extensive list of initiatives includes more stringent regulatory capital requirements, stricter consumer protections when accessing credit, a new office to monitor and address risks to financial stability, a new resolution process for troubled financial firms whose collapse might cause widespread damage, the prohibition of proprietary trading by banks, greater transparency for derivative instruments, the provision for shareholders

of a nonbinding vote on executive compensation, more regulatory enforcement power over credit ratings agencies, "skin in the game" required for originators of assets backing securities, and limits on the Federal Reserve's emergency lending authority.

Key Points

i. Consumer Financial Protection Bureau (CFPB) was established to consolidate all individual consume protection agencies and regulate the offering and provision of consumer financial products and services. It was given the authority to examine and enforce regulations for banks and credit unions with assets of over $10 Bn.

ii. Office of Financial Literacy was created for consumer education and created the first ever national consumer complaint hotline to report any problems financial products and services. It also created a national consumer complaint hotline so consumers will have, for the first time, a single toll-free number to report problems with financial products and services.

iii. The Dodd-Frank created the Financial Stability Oversight Council (The Council) with the purpose to identify and respond to emerging risks throughout the financial system and to promote market discipline. The Council makes recommendations to the Federal Reserve for increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity, with significant requirements on companies, with total consolidated assets equal to or greater than $50 Bn, that pose risks to the financial system. It is authorized to require a nonbank financial company be regulated by the Federal Reserve. It established a floor for capital that cannot be lower than the standards in effect and authorizes the Council to impose a 15-1 leverage requirement at a company if necessary to mitigate a grave threat to the financial system.

iv. Orderly Liquidation Authority was created to liquidate failing banks and nonbank financial companies that are likely to be considered too big to fail under Federal Deposit Insurance Corporation Improvement Act (FDICIA).

v. The Volcker rule under Dodd-Frank states that a banking entity cannot engage in proprietary trading, or acquire or retain any equity, partnership or other ownership interest in or sponsor a hedge fund or private equity fund except for certain permitted activities, some of which are trading in US government securities and trading on behalf of a customer in a fiduciary capacity. Other exceptions are funds that are organized or offered by the banking entity:
   - the banking entity owning no more than 3% of the fund;
   - an overall limit of 3% of the banking entity's Tier 1 capital invested in private funds; and
   - other limitations, including as to the name of the fund, and affiliated transactions.

vi. A non-bank financial company that engages in proprietary trading or fund activities will be subject to additional capital requirements and quantitative limits, to be established by rule. However, if a non-bank financial company engages in any permitted activities, the capital requirements or quantitative limits applied to the non-bank financial company for those activities will be the same as those applied to banking entities.

vii. Dodd-Franks gives the shareholders a non-binding vote on executive compensation. It also requires that "golden parachutes" should be a separate non-binding vote that will be required to be approved. Further, enhanced disclosure is required of the relationship of the compensation actually paid to executives versus the company's financial performance.

viii. Dodd-Franks requires the stock exchanges to adopt standards that require the listed companies to develop and implement policies providing for the recoupment of compensation in the event of an accounting restatement and enhanced disclosure for a company's policy on incentive-based compensation that is based on financial information required to be reported under the securities laws.

ix. Dodd-Frank also requires disclosure in regards to the reasons and criteria for choosing one person to serve as the Chairman and CEO or to have different individuals serve in these roles.

x. The Dodd-Frank act gives SEC the authority to impose a fiduciary duty on brokers who give investment advice.

xi. Dodd-Frank creates a program within the SEC to encourage whistleblowing. Whistleblowers can be rewarded of up to 30% of funds recovered for information provided.

xii. Dodd-Frank creates advocates for investors as the Investment Advisory Committee, a committee of investors to advise the SEC on its regulatory priorities and practices and the Office of Investor Advocate in the SEC, to identify areas where investors have significant problems dealing with the SEC and provide them assistance; and an ombudsman to handle investor complaints.

xiii. Dodd-Frank requires a study on appropriate criteria for determining accredited investor status and eligibility to invest in private funds. It also provides for special protection for senior investors.

xiv. Dodd-Frank provided the SEC the with authority to grant shareholders proxy access to nominate directors to help shift management focus from short term profits to long term growth and stability

xv. Dodd-Frank also increased transparency and refined pricing in the derivative and marketplace.

Survey Questionnaire

QUESTIONNAIRE

This questionnaire is designed to assess the impact of the 2008 Financial Crisis and to evaluate the measures required to revitalize the Investment Services sector in Kuwait.
In this regard, references to periods in this questionnaire are Year Ending 2007 (pre-crisis) and Year Ending 2014 (current).

GENERAL

1 Areas of operations

- ☐ *Asset Management - Investment Funds*
- ☐ *Asset Management - Seprately Managed Accounts*
- ☐ *Investment Banking (Corporate Finance)*
- ☐ *Brokerage Services*
- ☐ *Direct Investment - Listed equities*
- ☐ *Direct Investment - Private Equity*
- ☐ *Direct Investment - Real Estate*
- ☐ *Custody based lending*
- ☐ *Treasury operations*
- ☐ *Financing*
- ☐ *Research and Advisory*
- ☐ *Others (please explain)* _____

2 An approximate number of total employees for the below periods

	2007	2008	2009	2012	2013	2014
Total number of employees						

3 An approximate number of employees in the below departments

	2007	2008	2009	2012	2013	2014
Investment Activity (Decision Making)						
Investment Activity (Support & Back Office)						
Legal & Compliance						
Risk Management						

4 Revenue break down department wise for the below mentioned years. *(Kindly leave blank cells that are not applicable)*

(Amounts in KWD)	2007	2008	2009	2012	2013	2014
Asset Management - Investment Funds						
Asset Management - SMAs						
Investment Banking (Corporate Finance)						
Brokerage Services						
Direct Investment - Listed equities						
Direct Investment - Private Equity						
Direct Investment - Real Estate						
Custody based lending						
Treasury operations						
Financing						
Research and Advisory						
Other (describe) _____						
Other (describe) _____						
Other (describe) _____						
TOTAL	0	0	0	0	0	0

5 Key financial accounts from the company's year ending Financials.

(Amounts in KWD Mn)	2007	2008	2009	2012	2013	2014
Total Assets						
Shareholders' Equity						
External Debt (Short & Long Term)						

6 A self-rating on the company's applied Corporate Governance practices

- ☐ *Very weak*
- ☐ *Needs improvement*
- ☐ *Satisfactory*
- ☐ *Good*
- ☑ *Excellent*

7 Kindly provide an accurate feedback to the following questions related to the Board of Directors.

(a) ***Board Size***	☐ *3 to 5*	☐ *6 to 8*	☐ *More than 8*			
(b) ***Directors' Tenure***	☐ *Permanent*	☐ *One year*	☐ *Two years*	☐ *Three Years or more*	☐ *Rotation*	☐ *Need based replacement*
(c) ***Frequency of Board Meetings***	☐ *Monthly*	☐ *Quarterly*	☐ *Semi-annual*	☐ *Annual*	☐ *Need based*	
(d) ***Independent Directors***	☐ *Zero*	☐ *Less than 20%*	☐ *20% to 30%*	☐ *31% to 50%*	☐ *More than 50%*	
(e) ***Directors' Remuneration***	☐ *Fixed*	☐ *Performance based*	☐ *Pro bono*	☐	☐	
(f) ***Components of Directors Remuneration***	☐ *Cash*	☐ *Stock Options*	☐ *Mixed*			

8 Please indicate the reporting lines of the Chief Risk Officer. *(please check multiple boxes for multiple reporting lines)*

- ☐ *CEO*
- ☐ *CFO*
- ☐ *Board of Directors*
- ☐ *Other (please explain)* _____

9 Please indicate the reporting lines of the General Counsel / Head of Legal department. *(please check multiple boxes for multiple reporting lines)*

- ☐ *CEO*
- ☐ *CFO*
- ☐ *Board of Directors*
- ☐ *Other (please explain)* _____

10 Is the CEO a member of the Board of Directors?

- ☐ *Yes*
- ☐ *No*

11 How is the remuneration package of the CEO decided? Check Multiple, if applies.

- ☐ *Board of Directors (Remuneration Committee)*
- ☐ *Majority approval of Shareholders*
- ☐ *Other (please explain)* _____

12 What is the firm's policy on Related Party Transactions?

- ☐ *Moniored and disclosed to Shareholders*
- ☐ *Moniored but not disclosed to Shareholders*
- ☐ *Not Monitored*
- ☐ *Related Party Transactions are disallowed*
- ☐ *Other (please explain)* _____

13 On average, what perecentage of the C-Team and Directors' annual remuneration consists of Stock Grants/Options?

- ☐ *No Stock Grants/Options*
- ☐ *Less than 25%*
- ☐ *Between 26% to 50%*
- ☐ *More than 50%*
- ☐ *Other (please explain)* _____

QUESTIONNAIRE

This questionnaire is designed to assess the impact of the 2008 Financial Crisis and to evaluate the measures required to revitalize the Investment Services sector in Kuwait.
In this regard, references to periods in this questionnaire are Year Ending 2007 (pre-crisis) and Year Ending 2014 (current).

CRISIS

1 The 2008 US Subprime and Global Credit crisis sent shockwaves through the MENA region. Kuwait witnessed its largest financial crisis in recent history with a number of Investment Companies going underwater. In your opinion, rate the below parameter's severity to the financial crisis in Kuwait?

(Please rate the below on a scale of 1 to 5; 1 being least significant, 5 being most significant)

	1	2	3	4	5
(a) Lax oversight by Regulatory Authorities	☐	☐	☐	☐	☐
(b) Conflict of interest / agency issues	☐	☐	☐	☐	☐
(c) Easy access to credit	☐	☐	☐	☐	☐
(d) Mismatch in asset vs. liability duration	☐	☐	☐	☐	☐
(e) Deficient Risk Management practices	☐	☐	☐	☐	☐
(f) High degree of intergration with global asset markets	☐	☐	☐	☐	☐
(g) Challenges in recruiting talent	☐	☐	☐	☐	☐
(h) Management remuneration based on short-term targets	☐	☐	☐	☐	☐
(i) Cross ownerships by dominant groups	☐	☐	☐	☐	☐
Other (please list your parameters in the space below)					
(j) _____	☐	☐	☐	☐	☐
(k) _____	☐	☐	☐	☐	☐
(l) _____	☐	☐	☐	☐	☐

2 In your opinion, which of the following would have been an effective rescue measure for the industry during the crisis?

(Please rate the below on a scale of 1 to 5; 1 being least significant, 5 being most significant)

	1	2	3	4	5
(a) Troubled Asset Purchases by the government	☐	☐	☐	☐	☐
(b) Sound Bankruptcy Laws to facilitate liquidation and reorganization	☐	☐	☐	☐	☐
(c) Access to emergency credit lines from Banks and Financial Institutions	☐	☐	☐	☐	☐
(d) Deeper cut in interest rates by the Central Bank (monetary easing)	☐	☐	☐	☐	☐
Other (please list your parameters in the space below)					
(e) _____	☐	☐	☐	☐	☐
(f) _____	☐	☐	☐	☐	☐
(g) _____	☐	☐	☐	☐	☐

3 What measures need to be taken better protect the domestic industry from such contagions in the future?

(Please rate the below on a scale of 1 to 5; 1 being least significant, 5 being most significant)

	1	2	3	4	5
(a) Enforcement of market discipline	☐	☐	☐	☐	☐
(b) Tackle Moral Hazard - align remuneration to long-term Risk-adjusted performance	☐	☐	☐	☐	☐
(c) Improved transparency and reporting standards (Adoption of GIPS Standard)	☐	☐	☐	☐	☐
(d) Higher capitalization	☐	☐	☐	☐	☐
(e) Regulatory limit on Leverage - to reduce excessive risk taking	☐	☐	☐	☐	☐
(f) Broadening involvement of Investment Companies (encourage participation in mega projects)	☐	☐	☐	☐	☐
(g) Enlarge investment tools and instruments	☐	☐	☐	☐	☐
(h) Regulatory oversight on Risk Management Models	☐	☐	☐	☐	☐
(i) Risk disclosure to authorities	☐	☐	☐	☐	☐
Other (please list your parameters in the space below)					
(j) _____	☐	☐	☐	☐	☐
(k) _____	☐	☐	☐	☐	☐
(l) _____	☐	☐	☐	☐	☐

4 If you believe higher capitalization could be an effective measure, what would be the minimum capital required?

(a) Minimum Capital of KD25 million ☐
(b) Minimum Capital of KD50 million ☐
(c) Minimum Capital of KD75 million ☐
(d) Minimum Capital of KD100 million ☐
(e) Other (please specify) _____
(f) Do not agree with higher capitalization ☐

5 If you do not agree with higher capitalization being an effective measure, kindly enlist the reasons.

(a) Decreasing competition will reduce efficiencies
(b) Minimum Capital amount will be arbitrary
(c) Other (please explain) _____

6 What could be a solution for Investment Companies that went underwater during the crisis?

(a) Outright nationalization
(b) New bankruptcy legislation facilitating orderly liquidation or reorganization
(c) Mandatory merger

(d) *Encourage Management/Employees Buyout*

(d) *Other (please specify)* _____

7 What is prolonging the recovery / stagnanting growth in the sector?

(Please rate the below on a scale of 1 to 5; 1 being least significant, 5 being most significant)

	1	2	3	4	5
(a) *Lack of access to financing*	☐	☐	☐	☐	☐
(b) *Legislation: CMA, Bankruptcy laws, etc.*	☐	☐	☐	☐	☐
(c) *Indecisveness of shareholders and creditors*	☐	☐	☐	☐	☐
(d) *Inadequate restructuring options*	☐	☐	☐	☐	☐
(e) *Incentive to idle*	☐	☐	☐	☐	☐
(f) *Pessimistic about the future outlook*	☐	☐	☐	☐	☐
(g) *Exposure to Illiquid investments*	☐	☐	☐	☐	☐
(h) *Exposure to development projects with long gestation periods*	☐	☐	☐	☐	☐
(i) *Flight of capital*	☐	☐	☐	☐	☐
Other (please list your parameters in the space below)					
(j) _____	☐	☐	☐	☐	☐
(k) _____	☐	☐	☐	☐	☐
(l) _____	☐	☐	☐	☐	☐

8 Investment Companies, complementing the Banking industry, could play a bigger role in Kuwait's long-term development objectives. In your opinion, which of the following are areas that require significant improvement?

(a) *Infrastructure project financing* ☐

(b) *Housing - construction and mortgage* ☐

(c) *Greenfield participation* ☐

(d) *New ventures* ☐

(e) *Innovative Products* ☐

(f) *Other (please explain)* _____

9 What is your rating on the effectivenss of the CMA on a Cost/Benefit basis?

(Please rate the below on a scale of 1 to 5; 1 being least favourable, 5 being highly favourable)

(a) *In terms of Legislation*	☐ **1**	☐ **2**	☐ **3**	☐ **4**	☐ **5**
(b) *In terms of Governance*	☐ **1**	☐ **2**	☐ **3**	☐ **4**	☐ **5**

10 What areas can the CMA improve upon? *(Open-ended)*

_____

_____

11 In your opinion, what measures should have the Government of Kuwait taken to prevent the 2008 contagion? *(Open-ended)*

_____

_____