

**KUWAIT INVESTMENT COMPANY K.P.S.C.
AND ITS SUBSIDIARIES**



**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017**

KUWAIT INVESTMENT COMPANY K.P.S.C. AND ITS SUBSIDIARIES
State of Kuwait



**CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT**
For the year ended 31 December 2017

INDEX	PAGES
Independent auditors' report	1-6
Consolidated statement of financial position	7
Consolidated statement of profit or loss	8
Consolidated statement of comprehensive income	9
Consolidated statement of changes in equity	10
Consolidated statement of cash flows	11
Notes to the consolidated financial statements	12 –55



Al Shaheed Tower, 6th Floor
Khaled Ben Al Waleed Street, Sharq
P.O. Box 25578, Safat 13116
Kuwait
Tel: +965 2242 6999
Fax: +965 2240 1666
www.bdo.com.kw



Al-Shatti & Co.
Arraya Tower II, 23rd-24th floor,
Sharq P.O. Box 1753
Safat 13018
Kuwait
Telephone: +965 22275777
Fax: +965 22275888

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kuwait Investment Company K.P.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kuwait Investment Company K.P.S.C. (the Parent Company) and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies.

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

Basis for Opinion

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



INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of Kuwait Investment Company K.P.S.C. (Continued)

Report on the Audit of the Consolidated Financial Statements (Continued)

Key Audit Matters

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

Impairment testing of intangible assets

Since on initial recognition management determined that all of its intangible assets had indefinite useful lives, it conducts annual impairment tests to assess the recoverability of the carrying value of the Group's intangible assets and whether or not there has been any impairment.

The annual impairment testing of intangible assets is considered to be a key audit matter due to the complexity of the accounting requirements and the significant judgment required in determining the assumptions to be used to estimate the recoverable amount. The recoverable amount of intangible assets, which is based on the higher of fair value less cost to sell and value in use, has been derived from discounted forecast cash flow models. These models use several key assumptions, including estimates of future trading volumes, revenue growth rates, operating costs, terminal value growth rates and a discount rate.

Management has engaged an external expert to assist with the impairment test. The intangible asset's carrying value was KD 11,042,602 as at 31 December 2017 and no impairment was found to arise during the year then ended.

Refer to Note 11 to the consolidated financial statements for the related disclosures.

How our audit addressed the matter

Our audit procedures included carrying out the following among others:

- 1- Involving our own in-house valuation experts to assist in evaluating the appropriateness of the discount rates applied and other valuation parameters.
- 2- Evaluating the independence, professional qualification and the scope of work of management's valuation expert.
- 3- Evaluating the appropriateness of the assumptions applied to key inputs such as trading volumes, revenue growth rates and operating costs, which included comparing these inputs with externally derived data as well as our own assessment based on our knowledge of the client and industry.
- 4- Performing our own sensitivity analyses, which included assessing the effect of reasonably possible reductions in growth rates, pre-tax discount rates and forecast cash flows to evaluate the impact on the currently estimated headroom.
- 5- Evaluating the adequacy of the disclosures in Note 11 of the consolidated financial statements, including disclosures of key assumptions, judgments and sensitivities.



INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of Kuwait Investment Company K.P.S.C. (Continued)

Report on the Audit of the Consolidated Financial Statements (Continued)

Key Audit Matters (Continued)

Impairment testing of Investments in associate

Investments in associates include a quoted associate with a carrying value of KD 13,944,864 having a quoted market value of KD 5,818,757. However, management has conducted an assessment of the associate's value in use at the end of the reporting period to determine whether any impairment exists. This area was important to our audit because of the assessment process which is complex, judgmental and is based on assumptions that are affected by unexpected future market or economic conditions, particularly those related to cash flow forecasts and applied profit growth and discount rates. Any impairment that might arise could be potentially material to the Group's reported financial performance.

As disclosed in Note 27 there are a number of key sensitive judgments made in determining the inputs into the impairment model which include:

- Revenue growth
- Pre-tax rate used to discount cash flow projections
- Growth rate used to arrive at the terminal value

Management has engaged an external expert to assist with the impairment test. The associate's recoverable amount was determined to be KD 15,461,639, which is above the carrying value at the reporting date.

recoverable amount was determined to be KD 15,461,639, which is above the carrying value at the reporting date.

How our audit addressed the matter

Our audit procedures included carrying out the following among others:

- 1- Involving our own valuation experts to assist in evaluating the appropriateness of the discount rates applied and other valuation parameters;
- 2- Evaluating the independence, professional qualification and the scope of work of management's valuation expert.
- 3- Evaluating the appropriateness of the assumptions applied to key inputs such as trading volumes, revenue growth rates, operating costs, which included comparing these inputs with externally derived data as well as our own assessment based on our knowledge of the client and industry;
- 4- Performing our own sensitivity analysis, which included assessing the effect of reasonably possible reductions in growth rates, pre-tax discount rates and forecast cash flows to evaluate the impact on the currently estimated headroom; and
- 5- Evaluating the adequacy of the disclosure in Note 27 of the financial statements disclosures, including disclosures of key assumptions, judgments and sensitivities.



INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of Kuwait Investment Company K.P.S.C. (Continued)

Report on the Audit of the Consolidated Financial Statements (Continued)

Key Audit Matters (Continued)

Valuation of unquoted available for sale financial assets

The Group has unquoted available for sale financial assets measured at fair value using market information and significant unobservable inputs, of which KD 12,284,335 represents level 2 assets and KD 42,460,510 represents level 3 assets. These assets are significant in the context of both the overall financial position and the results of the Group.

The valuation of unquoted available for sale financial assets is important to our audit as it is highly dependent on estimates (various assumptions and valuation techniques) which contain assumptions that are not observable in the market. Valuation techniques used included Price to Book Value, Price to Earnings, Discounted Cash Flows and the Dividend Discount models.

Management has engaged an external expert to assist with the valuations for the level 3 unquoted available for sale financial assets.

Refer to Note 9 and Note 32 to the consolidated financial statements for the related disclosures.

Other Information

Management is responsible for the other information. The other information comprises the Board of Directors' report (but does not include the consolidated financial statements and our auditors' report thereon), and the Group's Annual report, which is expected to be made available to us after that date.

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

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

How our audit addressed the matter

Our audit procedures included carrying out the following among others:

- 1- Our audit focused on carrying out our procedures to assess techniques adopted and multiples used for valuing unlisted available for sale financial assets. As part of our audit procedures, we used our valuation experts to assist us in evaluating the expert's methodologies and assumptions.
- 2- Evaluating the independence, professional qualification and the scope of work of management's valuation expert.
- 3- We evaluated the Price to Book Values and Price to Earnings used by benchmarking them to comparable companies and market information. In addition, for valuations performed using Discounted Cash Flows, we evaluated the growth rates, discount rates and terminal growth rates.
- 4- We assessed the adequacy of the disclosures in Note 9 and Note 32 of the consolidated financial statements, particularly on completeness and accuracy of level 2 and 3 assets and related sensitivities.



INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of Kuwait Investment Company K.P.S.C. (Continued)

Report on the Audit of the Consolidated Financial Statements (Continued)

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of Kuwait Investment Company K.P.S.C. (Continued)

Report on the Audit of the Consolidated Financial Statements (Continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

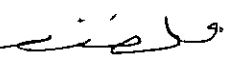
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

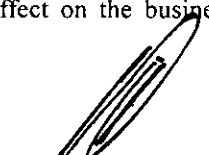
Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of accounts have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory count was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the financial year ended 31 December 2017 that might have had a material effect on the business of the Parent Company or on its financial position.

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



Qais M. Al-Nisf
License No. 38-A
BDO Al Nisf & Partners





Khalid Ibrahim Al-Shatti
License No. 175-A
Pricewaterhouse Coopers (Al-Shatti
& Co.)

Kuwait: 8 February 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Notes	2017 KD	2016 KD
ASSETS			
Cash and cash equivalents	4	18,830,206	14,309,114
Placements	5	15,351,527	16,292,876
Financial assets at fair value through profit or loss	6	66,729,581	28,352,171
Accounts receivable and other assets	7	18,309,765	13,989,619
Wakala receivables		1,843,799	3,093,799
Loans and advances	8	2,837,957	4,915,203
Financial assets available for sale	9	60,152,907	105,146,257
Investments held to maturity		2,987,325	3,034,598
Investments in associates	27	15,641,470	16,273,855
Investment properties	10	20,715,410	19,054,290
Intangible assets	11	11,042,602	11,042,602
Property and equipment	12	30,367,615	31,430,851
Total assets		264,810,164	266,935,235
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and customers	13	72,855,593	78,910,496
Islamic financing payables	14	12,876,783	13,864,251
Accounts payable and other liabilities	15	17,949,973	13,780,503
Total liabilities		103,682,349	106,555,250
Equity			
Share capital	16	55,125,000	55,125,000
Treasury shares	17	(734,629)	(734,629)
Statutory reserve	18	28,923,624	27,188,671
Voluntary reserve	19	18,957,738	17,222,785
Revaluation reserve		4,742,731	5,488,831
Fair value reserve		2,268,098	13,355,006
Foreign currency translation reserve		2,587,343	2,016,954
Retained earnings		15,351,836	6,214,611
Equity attributable to shareholders of the Parent Company		127,221,741	125,877,229
Non-controlling interests	26	33,906,074	34,502,756
Total equity		161,127,815	160,379,985
Total liabilities and equity		264,810,164	266,935,235


Waleed Abdullah Shamsan Al-Roumi
Chairman


Meshari Zaid Al Khaled
Deputy Chairman


Bader N. AlSubaiee
Chief Executive Officer

The notes on pages 12 to 55 form an integral part of these consolidated financial statements.

KUWAIT INVESTMENT COMPANY K.P.S.C. AND ITS SUBSIDIARIES
State of Kuwait



CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2017

	Notes	2017 KD	2016 KD
Income			
Management fees and commission income		6,597,460	5,619,800
Dividend income		2,304,999	1,959,930
Gain on redemption / sale of financial assets available for sale		8,386,883	1,846,305
Interest income		1,003,688	1,350,023
Rental income	20	8,188,574	7,921,255
Unrealised gain on financial assets at fair value through profit or loss		2,015,065	397,259
Gain on sale of financial assets at fair value through profit or loss		502,984	105,821
Change in fair value of investment properties	10	(170,346)	120,646
Gain on sale of investment properties	10	-	300,000
Gain on sale of a subsidiary	26	175,178	-
Share of results of investment in associates	27	569,507	362,452
Foreign exchange loss		(198,459)	(55,430)
Total income		<u>29,375,533</u>	<u>19,928,061</u>
Expenses and other charges			
General and administrative expenses	21	(13,940,696)	(10,719,219)
Impairment losses	22	(73,975)	(2,101,284)
Release of provision for credit losses	23	4,350,813	215,104
Interest expense		(1,589,582)	(1,700,338)
Total expenses and other charges		<u>(11,253,440)</u>	<u>(14,305,737)</u>
Operating profit		18,122,093	5,622,324
Other income	24	2,082,469	452,537
Profit before contribution to Kuwait Foundation for the Advancement of Science ("KFAS"), National Labour Support Tax ("NLST") and Zakat and Board of Directors remuneration		20,204,562	6,074,861
KFAS		(143,265)	(20,434)
NLST		(447,286)	(108,870)
Zakat		(220,928)	(22,146)
Board of Directors remuneration		(95,000)	(45,000)
Profit for the year		<u>19,298,083</u>	<u>5,878,411</u>
Attributable to:			
Shareholders of the Parent Company		16,443,050	3,980,301
Non-controlling interests	26	2,855,033	1,898,110
		<u>19,298,083</u>	<u>5,878,411</u>
Earnings per share attributable to Shareholders of the Parent Company (basic and diluted) (fils):	25	<u>30.006</u>	<u>7.263</u>

The notes on pages 12 to 55 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	2017	2016
Note	KD	KD
Profit for the year	<u>19,298,083</u>	<u>5,878,411</u>
Other comprehensive (loss) / income:		
<i>Items that will not be reclassified subsequently to the consolidated statement profit or loss:</i>		
Share of revaluation of property in associate	(746,100)	-
<i>Items that may be reclassified subsequently to the consolidated statement of profit or loss</i>		
Financial assets available for sale:		
- Change in fair value	(2,725,194)	(7,745,345)
- Gain on redemption / sale of financial assets available for sale	(8,386,883)	(1,846,305)
- Transferred to consolidated statement of profit or loss on impairment	22 73,975	1,414,020
Share of other comprehensive (loss) / income of investment in associates	(30,690)	24,873
Foreign exchange translation adjustments	<u>570,389</u>	<u>(220,519)</u>
Other comprehensive loss for the year	<u>(11,244,503)</u>	<u>(8,373,276)</u>
Total comprehensive income / (loss) for the year	<u>8,053,580</u>	<u>(2,494,865)</u>
Total comprehensive income / (loss) attributable to:		
Shareholders of the Parent Company	5,180,431	(4,524,826)
Non-controlling interests	<u>2,873,149</u>	<u>2,029,961</u>
	<u>8,053,580</u>	<u>(2,494,865)</u>

The notes on pages 12 to 55 form an integral part of these consolidated financial statements.

KUWAIT INVESTMENT COMPANY K.P.S.C AND ITS SUBSIDIARIES
State of Kuwait



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Share capital	Treasury shares	Statutory reserve	Voluntary reserve	Revaluation reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Equity attributable to shareholders of the Parent Company	Non-controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2016	55,125,000	(734,629)	26,770,996	16,805,110	5,488,831	21,639,614	2,237,473	3,184,684	130,517,079	32,852,036	163,369,115
Profit for the year	-	-	-	-	-	-	-	3,980,301	3,980,301	1,898,110	5,878,411
Other comprehensive loss for the year	-	-	-	-	-	(8,284,608)	(220,519)	-	(8,505,127)	131,851	(8,373,276)
Total comprehensive (loss) / income for the year	-	-	-	-	-	(8,284,608)	(220,519)	3,980,301	(4,524,826)	2,029,961	(2,494,865)
Transfer to reserves (Note 18 and 19)	-	-	417,675	417,675	-	-	-	(835,350)	-	-	-
Effect on non-controlling interests	-	-	-	-	-	-	-	(115,024)	(115,024)	61,759	(53,265)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(441,000)	(441,000)
Balance at 31 December 2016	55,125,000	(734,629)	27,188,671	17,222,785	5,488,831	13,355,006	2,016,954	6,214,611	125,877,229	34,502,756	160,379,985
Profit for the year	-	-	-	-	-	-	-	16,443,050	16,443,050	2,855,033	19,298,083
Other comprehensive (loss)/ income for the year	-	-	-	-	(746,100)	(11,086,908)	570,389	-	(11,262,619)	18,116	(11,244,503)
Total comprehensive (loss)/income for the year	-	-	-	-	(746,100)	(11,086,908)	570,389	16,443,050	5,180,431	2,873,149	8,053,580
Transfer to reserves (Note 18 and 19)	-	-	1,734,953	1,734,953	-	-	-	(3,469,906)	-	-	-
Effect on non-controlling interests (Note 26)	-	-	-	-	-	-	-	-	-	(2,734,831)	(2,734,831)
Dividends declared to shareholders of Parent company (Note 28)	-	-	-	-	-	-	-	(3,835,919)	(3,835,919)	-	(3,835,919)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(735,000)	(735,000)
Balance at 31 December 2017	55,125,000	(734,629)	28,923,624	18,957,738	4,742,731	2,268,098	2,587,343	15,351,836	127,221,741	33,906,074	161,127,815

The notes on pages 12 to 55 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	Notes	2017 KD	2016 KD
OPERATING ACTIVITIES			
Profit for the year		19,298,083	5,878,411
<i>Adjustments for:</i>			
Dividend income		(2,304,999)	(1,959,930)
Gain on redemption / sale of financial assets available for sale		(8,386,883)	(1,846,305)
Interest income		(1,003,688)	(1,350,023)
Unrealised gain of financial assets at fair value through profit or loss		(2,015,065)	(397,259)
Gain on sale of financial assets at fair value through profit or loss		(502,984)	(105,821)
Change in fair value of investment properties	10	170,346	(120,646)
Gain on sale of investment properties	10	-	(300,000)
Gain on sale of subsidiary	26	(175,178)	-
Share of results of investment in associates	27	(569,507)	(362,452)
Foreign exchange loss		198,459	55,430
Depreciation	12	5,410,211	4,691,511
Impairment losses	22	73,975	2,101,284
Release of provision for credit losses		(2,255,091)	(264,604)
Interest expense		1,589,582	1,700,334
Provision no longer required	24	(1,500,000)	-
		8,027,261	7,719,930
<i>Changes in operating assets and liabilities:</i>			
Placements		941,349	3,608,970
Financial assets at fair value through profit or loss		(35,859,361)	1,291,952
Accounts receivable and other assets		(290,814)	(5,224,021)
Wakala receivables		500,000	-
Loans and advances		313,366	(618,217)
Accounts payable and other liabilities		5,610,088	(374,455)
Net cash (used in) / from operating activities		(20,758,111)	6,404,159
INVESTING ACTIVITIES			
Proceeds from sale of subsidiary	26	1,025,000	-
Purchase of investment properties	10	(2,070,098)	(4,027,280)
Proceeds from sale of investment properties	10	-	3,905,731
Purchase of property and equipment	12	(6,799,438)	(8,052,097)
Proceeds from sale of property and equipment		2,452,463	2,175,660
Purchase of financial assets available for sale		(32,823,345)	(19,274,183)
Proceeds from sale of financial assets available for sale		75,632,470	27,974,707
Cash received on capital reduction in an associate		-	813,471
Dividend income received		2,529,346	2,182,123
Interest income received		993,327	1,225,992
Net cash flows from investing activities		40,939,725	6,924,124
FINANCING ACTIVITIES			
Net movement in banks and customers' deposits		(6,085,212)	(26,767,221)
Net movement in islamic financing payables		(987,468)	(374,913)
Net movement in non-controlling interests		(2,734,831)	-
Dividend paid to shareholders of the Parent Company		(3,786,525)	(52,874)
Dividend paid to non-controlling interests		(735,000)	(441,000)
Interest expenses paid		(1,579,594)	(1,607,035)
Net cash flows used in financing activities		(15,908,630)	(29,243,043)
Effect of foreign currency translation adjustments		248,108	(11,688)
Net increase / (decrease) in cash and cash equivalents		4,521,092	(15,926,448)
Cash and cash equivalents at beginning of the year		14,309,114	30,235,562
Cash and cash equivalents at end of the year	4	18,830,206	14,309,114
Non-cash transactions			
Accounts receivable and other assets	7	4,817,266	-

The notes on pages 12 to 55 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Kuwait Investment Company K.P.S.C. ("the Parent Company") is a public shareholding investment company incorporated under the laws of the State of Kuwait by virtue of memorandum of association No.29 on 25 November 1961, and registered in the commercial registry under No.4340 on 22 May 1962. Its registered office is at Souk Al Manakh, Mubarak Al Kabeer Street, Kuwait and its mailing address is P.O. Box 1005 Safat, 13011 – State of Kuwait. The Parent Company's major shareholder is Kuwait Investment Authority. The Parent Company is listed on the Kuwait Stock Exchange and is governed under the directions of the Central Bank of Kuwait ("CBK") and the Capital Markets Authority of Kuwait ("CMA").

The Parent Company's objectives as per the Memorandum of Incorporation and Articles of Association are as follows:

- Investment and increase of its shareholders and clients' savings and the loans concluded through employing them in financial securities, rights, royalties, properties, assets and other movables and immovables of all types at its own discretion.
- Participating in incorporation of other companies to realise profit in accordance with law and assisting in incorporation of these companies.
- Sale of shares and bonds of companies and governmental and semi-governmental institutions.
- To conduct research and surveys related to the employment of capital and provide all the services related to investment operations and third party employment, including:
 - Securities broker not registered in the Securities Exchange.
 - Investment Portfolio Manager.
 - Collective Investment Scheme Manager.
 - Custodian.
 - Investment controller.
 - Subscription agent.

The Parent Company is authorised to have interest in or participate with institutions carrying out similar activities or those parties who will assist it in achieving its objective whether in Kuwait or abroad in accordance with the provisions of this Memorandum of Incorporation and Articles of Association.

The Extraordinary General Assembly held on 4 April 2016 approved the change in the Parent Company's objectives.

The consolidated financial statements of Kuwait Investment Company K.P.S.C ("the Parent Company") and its subsidiaries ("the Group") for the financial year ended 31 December 2017 were authorised for issuance by the board of directors on 08 February 2018 and are subject to the approval at the Annual General Assembly.

The Parent Company had 130 employees as at 31 December 2017 (2016: 122 employees).

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention except for "financial assets at fair value through profit or loss", "financial assets available for sale" and "investment properties" which have been measured at fair value.

These consolidated financial statements have been presented in Kuwaiti Dinars ("KD"), which is the functional and presentation currency of the Group.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"), IFRIC interpretations, and applicable requirements of Ministerial Order No. 18 of 1990, as modified for use by the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require the adoption of all IFRSs except for the International Accounting Standard ("IAS") 39 requirement for collective impairment provision, which has been replaced by the CBK requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

The preparation of consolidated financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires the Group's management to exercise judgment in applying the Group's accounting policies. The areas of significant judgments and estimates made in preparing the consolidated financial statements and their effect are disclosed in Note 3.

2.3 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

a) New standards, interpretations and amendments effective from 1 January 2017

The accounting policies applied by the Group are consistent with those used in the previous year except for the changes due to implementation of the following new and amended International Financial Reporting Standards:

Amendment to IAS 7 – Disclosure Initiative

The amendment to this standard which is effective prospectively for annual periods beginning on or after 1 January 2017 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liability arising from financing activities, including both changes arising from cash flows and non-cash changes.

The adoption of these amendments did not have any material impact on the current period.

Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses

The amendments to this standard which are effective retrospectively for annual periods beginning on or after 1 January 2017 clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The adoption of these amendments did not have any material impact on the current period.

Annual Improvements to IFRSs 2014 – 2016 Cycle:

Amendments to IFRS 12 - Disclosure of Interests in Other Entities

IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

b) Standards and interpretations issued but not effective

The following new and amended IASB Standards have been issued but are not yet effective, and have not been adopted by the Group:

Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions

This standard will be effective for annual periods beginning on or after 1 January 2018, the amendments

address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

These amendments are not expected to have any material impact to the Group.

IFRS 9 - Financial Instruments

The standard, effective for annual periods beginning on or after 1 January 2018, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The Group's debt instruments that are currently classified as available-for-sale will be reclassified to the amortized cost and hence there will be no change to the accounting for these assets. However, certain investments in shares do not meet the criteria to be classified either as at FVOCI or at amortised cost and KD 21.184M. will have to be reclassified to financial assets at fair value through profit or loss (FVPL). Related fair value gains of KD 3.659M. will have to be transferred from the fair value reserve to retained earnings on 1 January 2018.

The other financial assets held by the Group include:

- equity instruments currently classified as AFS for which a FVOCI election is available
- equity investments currently measured at fair value through profit or loss (FVPL) which will continue to be measured on the same basis under IFRS 9, and
- debt instruments currently classified as held-to-maturity and measured at amortised cost which meet the conditions for classification at amortised cost under IFRS 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified from the FVOCI reserve to retained earnings. During the 2017 financial year, KD 8.387M. of such gains were recognised in profit or loss in relation to the disposal of available-for-sale financial assets.

2. **BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**
- 2.3 **APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)**
- b) **Standards and interpretations issued but not effective (continued)**

IFRS 9 - Financial Instruments (continued)

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects a small increase in the loss allowance for trade receivable and loans and advances by approximately 5% and 10% respectively and in relation to debt investments held at amortised cost. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15 - Revenue from contracts with customers

The standard, effective for annual periods beginning on or after 1 January 2018, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the following existing standards and interpretations upon its effective date:

- IAS 18 – Revenue,
- IAS 11 – Construction Contracts,
- IFRIC 13 – Customer Loyalty Programs,
- IFRIC 15 – Agreements for the Construction of Real Estate,
- IFRIC 18 – Transfers of Assets from Customers, and,
- SIC 31 – Revenue-Barter Transactions Involving Advertising Services.

The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 - Leases

This standard will be effective for annual periods beginning on or after 1 January 2019. This standard will be replacing IAS 17 "Leases" and will require lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 with limited exceptions for low-value assets and short term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term.

The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

IFRS 17 – Insurance Contracts

This standard will be effective for annual periods beginning on or after 1 January 2021 and replaces IFRS 4 - Insurance Contracts. The new standard applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The core of IFRS 17 is the general model, supplemented by:

- a) A specific adaptation for contracts with direct participation features (Variable fee approach)
- b) A simplified approach (premium allocation approach) mainly for short duration contracts

These amendments are not expected to have any material impact to the Group.

2. **BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**
- 2.3 **APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)**
- b) **Standards and interpretations issued but not effective (continued)**

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

The interpretation will be effective for annual periods beginning on or after 1 January 2018 and clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or nonmonetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

These amendments are not expected to have any material impact to the Group.

Amendments to IAS 28 – Investment in Associates and Joint Ventures

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted.

The amendments clarify that:

- a) An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- b) If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognised; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent.

These amendments are not expected to have any material impact to the Group.

Amendments to IAS 40 – Transfers of Investment Property

The amendment will be effective for annual periods beginning on or after 1 January 2018 and clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

These amendments are not expected to have any material impact to the Group.

2.4 **Basis of consolidation**

The consolidated financial statements comprise of the Parent Company and its subsidiaries drawn up to 31 December 2017 (see Note 26). All subsidiaries have a reporting date of 31 December.

Where the Parent Company has control over an investee, it is classified as a subsidiary. The Parent Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Basis of consolidation (continued)

De-facto control exists in situations where the Parent Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Parent Company considers all relevant facts and circumstances, including:

- The size of the Parent Company's voting rights relative to both the size and dispersion of other parties who hold voting rights
- Substantive potential voting rights held by the company and by other parties
- Other contractual arrangements
- Historic patterns in voting attendance.

The Parent Company reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three components of controls listed above.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Intercompany balances and transactions are eliminated in full on consolidation.

Financial statements of subsidiaries are adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein.

Non-controlling interests consist of amount of those interests at the date of original business combination and the non-controlling entity's share of changes in equity since the date of the combination.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance. Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of non-controlling interests are also recorded in equity. When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the consolidated statement of profit or loss.

The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities (i.e. reclassified to the consolidated statement of profit or loss or transferred directly to retained earnings as specified by applicable IFRSs).

2.5 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred by the Group, liabilities incurred or assumed by the Group to the former owners of the acquiree and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally expensed as incurred. At the acquisition date, the identifiable assets acquired and liabilities assumed and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Business combinations (continued)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in the consolidated statement of profit or loss.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

If the initial accounting for business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in consolidated statement of profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated statement of profit or loss where such treatment would be appropriate if that interest was disposed of.

2.6 Financial assets

Classification, initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as "financial assets at fair value through profit or loss", "loans and receivables", "available for sale financial assets" and "investment held to maturity". The classification depends on the purpose for which financial assets were acquired and it is determined at initial recognition.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of profit or loss.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial assets (continued)

Classification, initial recognition and measurement (continued)

A "regular way" purchase of financial assets is recognised using the trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

The Group's financial assets include cash and cash equivalents, placements, financial assets at fair value through profit or loss, accounts receivable and other assets, wakala receivables, loans and advances, available for sale financial assets and investments held to maturity.

Subsequent measurement

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

Cash and cash equivalents

Cash and cash equivalents as per the consolidated statement of cash flows consist of cash on hand, current accounts with banks, short-term deposits with an original maturity of less than three months and cash at investment portfolios.

Placements

Placements represent deposits with banks due within three months or more from the placement date and earn interest.

Financial assets as fair value through profit or loss

A financial asset at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate method amortisation and the losses arising from impairment are recognised in the consolidated statement of profit or loss.

Financial assets available for sale

Financial assets available for sale include equity and debt securities. Equity investments classified as financial assets available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to need for liquidity or in response to changes in the market conditions.

After initial recognition, available for sale financial assets are measured at fair value with unrealised gain or loss recognised in other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recycled in the consolidated statement of profit or loss, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated statement of profit or loss.

Financial assets available for sale whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial assets (continued)

Investments held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity, other than those that the Group upon initial recognition designates at fair value through profit or loss, available for sale or those that meet the definition of loans and receivables, are classified as held to maturity.

Investments held to maturity are measured initially at their transaction price, including transaction costs and subsequently measured at amortised cost using the effective interest rate method, less impairment losses, if any.

Derecognition of financial assets

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

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred substantially all the risks and rewards of ownership.

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrowers or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and advances

Loans and advances are subject to credit risk provision for loan impairment if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amount recoverable from guarantee and collateral, discounted based on the contractual interest rate. The amount of loss arising from impairment is taken to the consolidated statement of profit or loss.

In addition, in accordance with CBK instructions, a minimum general provision of 1% for cash facilities and 0.5% for non-cash facilities are made on all applicable credit facilities (net of certain categories of collateral), that are not provided for specifically.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial assets (continued)

Wakala receivables

Wakala is an agreement whereby the Group, under an agency agreement, provides a sum of money to a customer who invests it according to specific conditions in return for a fee. The agent is obliged to return the amount in case of default, negligence or violation of any terms and conditions of the wakala.

Wakala receivables are initially measured at fair value (transaction price). Subsequent to initial recognition, these are measured at amortised cost using the effective interest rate method less impairment losses.

Financial assets available for sale

In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on those financial assets available for sale previously recognised in the consolidated statement of profit or loss, is removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income. In the case of debt instruments classified as financial assets available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss.

2.7 Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee generally accompanying a shareholding of between 20% and 50% of the voting rights.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated statement of profit or loss.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Investment in associates (Continued)

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a Group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The associate financial statements are prepared either to the Parent Company's reporting date or to a date not longer than three months of the Parent Company's reporting date. Amounts reported in the financial statements of associates have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Where practicable, adjustments are made for the effect of significant transactions or other events that occurred between the reporting date of the associates and the Parent Company's reporting date.

2.8 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property.

Investment property is measured initially at its cost, including related transaction costs and where applicable borrowing costs.

After initial recognition, investment properties are re-measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and other assumptions market participants would make when pricing the property under current market conditions.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Changes in fair values are recognised in the consolidated statement of profit or loss. Investment properties are derecognised when they have been disposed.

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Intangible assets

Intangible assets are measured on initial recognition at historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the asset. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are amortised over the useful economic life and tested for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but tested for impairment annually and whenever there is an indication that the intangible asset may be impaired. The Group's intangible assets are with indefinite lives.

If the carrying value of the intangible asset is more than the recoverable amount, the intangible asset is considered impaired and is written down to its recoverable amount. The excess of carrying value over recoverable amount is recognised in the consolidated statement of profit or loss.

2.10 Property and equipment

Property and equipment except land are stated at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Land is carried at revalued amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Transfers from investment property to property and equipment are made when the management decides a change in use and becomes owner-occupied property.

Depreciation of property and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	10 years
Motor vehicles	3-4 years
Computer hardware and software	4 years
Office equipment and machinery	4 years
Furniture and fixtures	4 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at least at each financial year-end. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss in the period in which it occurs.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of profit or loss.

For a non-financial asset, other than goodwill, in which impairment subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of profit or loss.

2.12 Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at "fair value through profit or loss" or "borrowings". The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value. Borrowings are initially recognised at fair value, net of transaction costs incurred. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs.

To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings (deposits from banks and customers), Islamic financing payables and accounts payable and other liabilities. The Group classifies its financial liabilities as borrowings and does not classify any financial liabilities at "fair value through profit or loss".

Borrowings

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

Islamic financing payable

Ijara payables

They are an Islamic transaction involving purchase and immediate lease of an asset where the lessor conveys to the lessee the right to use the asset for an agreed period of time in return for a payment or series of payments. At the end of the lease term the lessee has the option to purchase the asset.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial liabilities (continued)

Murabaha payables

Murabaha payables are initially recognised at the value received from contracts. After initial recognition, murabaha payables are measured at amortised cost using the effective interest rate method. The effective interest rate is a method of calculating the amortised cost of a financial asset and of allocating cost over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, when appropriate, a shorter period.

Accounts payable and other liabilities

Liabilities are recognised for amount to be paid in the future for goods or services received, whether billed or not. Accounts payable and other liabilities are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

2.13 Employees end of service benefits

The Group is liable under Kuwaiti Labor Law, to make payments to the employees for post employment benefits through defined benefits plan. Such payment is made on a lump sum basis at the end of an employee's service. This liability is unfunded and has been computed as the amount payable as a result of involuntary termination of the company's employees on the financial position date. The Group expects this method to produce a reliable approximation of the present value of this obligation.

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

2.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event, it is probable that an outflow of resources will be required to settle the obligation, and the costs to settle has been reliably estimated.

2.15 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the counterparty.

2.16 Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Parent Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (gain on sale of treasury shares) which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Treasury shares (Continued)

Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

2.17 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined term of payment and excluding tax or duty.

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

Management fees and commission income

Fees and commission income earned for the provision of services over a period of time are accrued over that period. These include management fees, advisory fees and commission income, arising from the Group's management of portfolios, funds, custody and similar trust and fiduciary activities.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Interest income

Interest income is recognised in the consolidated statement of profit or loss for all interest bearing instruments on effective interest method. The calculation includes all contractual term of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the interest rate, but not future credit losses.

Once a financial instrument categorised, as 'available for sale financial assets' or 'loans and receivable' is impaired, interest is thereafter recognised using the original effective interest rate used to discount the future cash flow for the purpose of measuring the impairment loss.

Revenue from sale of vehicles

Revenue from sale of vehicles is recognised on completion of the sale process, which is finalised when all benefits and risks of ownership are transferred to the buyer.

Leases

Where the Group is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

Where the Group is the lessor

When assets are leased out under an operating lease, the asset is included in the consolidated statement of financial position based on the nature of the asset.

Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

2.18 Fiduciary assets

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'Kuwaiti dinars (KD)', which is the Group's presentation currency.

Transactions denominated in foreign currencies are translated into KD at rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are retranslated into KD at rates of exchange prevailing at the end of the reporting period. The resultant exchange differences are included in the consolidated statement of profit or loss.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each financial reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the consolidated statement of profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in the consolidated statement of profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in KD using exchange rates prevailing at the reporting date, income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are charged / credited to other comprehensive income and recognised in the Group's foreign currency translation reserve within equity. On disposal of a foreign operation the exchange differences recognised in equity are reclassified to the consolidated statement of profit or loss and recognised as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated into KD at the closing rate. Exchange differences arising are recognised in the consolidated other comprehensive income.

2.20 Interest expense

All borrowing costs, other than those directly attributable to the acquisition, construction or production of qualifying assets, are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

2.21 Taxes

The Parent Company is legally required to contribute to the Kuwait Foundation for the Advancement of Sciences ("KFAS"). The Group's contributions to KFAS are recognised as an expense in the period during which the Group's contribution is legally required. KFAS is imposed at 1% of net profit attributable to the equity holders of the Parent Company, less permitted deductions.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Taxes (continued)

National Labour Support Tax

The Parent Company calculates National Labour Support Tax ("NLST") in accordance with the Ministry of Finance resolution No.19 of 2000. NLST is imposed at 2.5% of net profit attributable to the equity holders of the Parent Company, less permitted deductions.

Zakat

The Parent Company has provided for Zakat in accordance with the requirements of Law No. 46 of 2006. Zakat is imposed at 1% of net profit attributable to the equity holders of the Parent Company, less permitted deductions.

2.22 Contingencies

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

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

2.23 Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs cost. The operating segments used by the management of the Group to allocate resources and assess performance are consistent with the internal report provided to the chief operating decision maker. Operating segment exhibiting similar economic characteristic, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

3. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities at the reporting date. However, uncertainty about the assumptions and estimate could result in outcomes that require a material adjustment to the amount of the asset or liability reported in future period.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amount recognised in the consolidated financial statements.

Classification of financial instruments

Judgments are made in the classification of financial instruments based on the management's intentions on acquisition.

Liabilities from operating leases – the Group as a lessor

The Group enters into vehicle leasing contracts with the clients. Based on its evaluation of the terms and conditions of the contractual arrangements with the clients, the Group decided to maintain all the material risks and benefits of owning these leased vehicles. Therefore, these leases are accounted for as operating leases.

Impairment of available for sale financial assets

The Group treats the available for sale financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires judgment. In addition, the Group also evaluates among other factors, normal volatility in the share price for quoted investments and the future cash flows and the discount factors for unquoted investments.

3. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Judgments (continued)

Consolidation of entities in which the group holds less than 50%.

Management considers that the Group has de facto control of KIC Financial Brokerage K.S.C (Closed) even though it has less than 50% of the voting rights. The Group is the majority shareholder of KIC Financial Brokerage K.S.C (Closed) with a 45.47% equity interest, while all other shareholders individually own less than 11.16% of its equity shares. There is no history of other shareholders forming a Group to exercise their votes collectively.

Management considers that the Group has de facto control of KIC Global Bond Fund even though it has less than 50% of the voting rights because it is the fund manager and all relevant operating and financial decisions are taken by the fund manager.

The Group achieved power over the investee company Al Masar Leasing and Investment Company K.S.C. (Closed) by appointment of four board members including the chairman of the board of directors out of a total board members of eight. The Group has considered the power achieved through absolute voting rights is sufficient to give it the practical ability to direct the relevant activities of the investee company, despite the fact they have less than 50% holding.

Estimation uncertainty and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant impact causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Valuation of unquoted financial assets

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- earnings multiple;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- price to book value model; or
- other valuation models.

Impairment loss on accounts receivable and other assets, loans and advances and investments in debt instruments

The Group reviews accounts receivable, loans and advances and investments in debt instruments on a quarterly basis to assess any indications of impairment and if a provision for impairment should be recorded in the consolidated statement of profit or loss. Such estimates are necessarily based on assumptions about several factors involving varying degrees of uncertainty, and actual results may differ resulting in future changes to such provisions.

Revenue recognition

The Group uses the time proportion method in accounting for services. Using the time proportion method in accounting for the revenues requires the Group to estimate the services provided to the clients to date according to the provisions of the Group activities. The Group takes into consideration retaining provisions necessary for any expected doubtful receivables resulting from these services.

Fair value measurement of investment properties

Investment properties of the Group are measured at fair value for the purposes of preparing the consolidated financial statements. Group management determines the main appropriate techniques and inputs required for measuring the fair value. In determining the fair value of the investment properties, management uses observable market data and as appropriate, the Group uses an external valuer qualified to do the valuation. Information regarding the required valuation techniques and inputs used to determine the fair value of investment properties are disclosed in Note 10.

3. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Estimation uncertainty and assumptions (continued)

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Useful lives of property and equipment

As described in accounting policies the Group reviews the estimated useful lives over which its property and equipment's are depreciated. The Group's management is satisfied that the estimates of useful lives are appropriate.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

4. CASH AND CASH EQUIVALENTS

	<u>2017</u>	<u>2016</u>
	KD	KD
Cash at banks, in portfolios and on hand	13,186,935	6,265,293
Placements maturing within three months	<u>5,643,271</u>	<u>8,043,821</u>
	<u>18,830,206</u>	<u>14,309,114</u>

Placements are made with financial institutions and carry an average effective interest rate of 1.80 % (2016: 0.63 %) per annum.

5. PLACEMENTS

Placements represent deposit with a local bank in Kuwait with a maturity over a period exceeding three months from the date of the placement. The average effective interest rate on Placements is 2.45 % (2016: 1.25 %) per annum.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2017</u>	<u>2016</u>
	KD	KD
Quoted securities	11,784,707	2,675,277
Unquoted securities	1,265,394	1,543,665
Managed funds	<u>53,679,480</u>	<u>24,133,229</u>
	<u>66,729,581</u>	<u>28,352,171</u>

The fair value of investments at fair value through profit or loss was determined based on valuation levels mentioned in Note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

7. ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2017	2016
	KD	KD
Trade receivable	9,603,520	8,016,733
Less: provision for impairment	(3,897,011)	(3,884,209)
	5,706,509	4,132,524
Amounts due from brokers	4,708,538	6,938,892
Management fees receivable	1,624,608	1,281,699
Prepayments and deposits	885,277	1,127,435
Advance payment for purchase of investments	588,124	-
Interest receivable	315,766	265,615
Accrued income	127,084	78,890
Others*	4,353,859	164,564
	<u>18,309,765</u>	<u>13,989,619</u>

*During the year, the Group received a 22.967 % share in a foreign property as part of settlement of foreign loan, with a total value of KD 4,067,266 (Note 8). The Group has signed an agreement with the other joint-owners of the property to manage and develop the property through an agent party (a joint-owner of the property).

Trade receivable are expected to be realised within a period of one year. At the reporting date, the Parent Company had no trade receivable that are past due but not impaired. At the reporting date, the subsidiaries had trade receivable amounting to KD 1,562,448 (2016: KD 1,335,448) which were past due but not impaired.

The total trade receivable which has been fully provided for amounted to KD 3,467,732 (2016: KD 3,519,097).

At 31 December 2017, the carrying value of accounts receivable approximates their fair values. Movement in provision for impairment of trade receivable during the year:

	2017	2016
	KD	KD
Balance at 1 January	3,884,209	3,795,775
Charge for the year (Note 23)	63,295	58,152
Foreign exchange differences	(50,493)	30,282
Balance at 31 December	<u>3,897,011</u>	<u>3,884,209</u>

8. LOANS AND ADVANCES

The composition of the loans and advances portfolio is as follows:

	2017	2016
	KD	KD
International	6,165,737	10,449,397
Domestic	15,837,665	16,023,770
	22,003,402	26,473,167
Less : provision for credit losses	(19,165,445)	(21,557,964)
	<u>2,837,957</u>	<u>4,915,203</u>

During the year, the Parent Company settled one of its international loans amounted to KD 4,012,633 with the party for a share in a foreign property valued at KD 4,067,266 (Note 7). The settlement resulted in reversal of provision of KD 2,005,984.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

8. LOANS AND ADVANCES (Continued)

Movement in provision for credit losses of loans and advances during the year:

	General provision KD	Specific provision – post liberation KD	Specific provision – pre-invasion KD	Total KD
Balance at 1 January 2016	13,679	16,086,906	5,826,015	21,926,600
Provision / (reversal of provision) during the year (Note 23)	15,039	(573,426)	-	(558,387)
Foreign exchange differences	402	177,250	12,099	189,751
Balance at 31 December 2016	29,120	15,690,730	5,838,114	21,557,964
Reversal of provision during the year (Note 23)	-	(2,303,386)	-	(2,303,386)
Foreign exchange differences	(452)	(32,424)	(56,257)	(89,133)
Balance at 31 December 2017	28,668	13,354,920	5,781,857	19,165,445

All loans are term loans granted to companies, financial institutions and individuals and are denominated in KD, US Dollars and Bahraini Dinars.

Provision for credit losses is made in accordance with Central Bank of Kuwait requirements including general provision on the balance of regular facilities for which no specific provisions are made.

The total non-performing loans and advances which have been fully provided for amounts to KD 19,136,777 (2016: KD 19,496,511).

The average interest rate on loans and advances is 4.75% (2016: 3.75% to 13%) per annum. Interest income includes KD Nil (2016: KD 240,236) received on impaired loans and advances.

The carrying amount of loans and advances which are past due but not impaired is Nil (2016: KD 2,032,335). At 31 December 2017, management estimates the fair value of collaterals held against past due or impaired loans and advances to reasonably approximate KD 3,580,000 (2016: KD 15,802,000).

9. FINANCIAL ASSETS AVAILABLE FOR SALE

	2017 KD	2016 KD
<i>Equity instruments:</i>		
Quoted securities	3,680,005	4,230,628
Unquoted securities	44,189,092	57,376,670
Managed funds	9,922,959	40,637,747
<i>Debt instruments:</i>		
Unquoted bonds	2,360,851	2,901,212
	<u>60,152,907</u>	<u>105,146,257</u>

During the year, the Group recognised an impairment loss of KD 73,975 (2016: KD 1,414,020) in respect certain financial assets available for sale in consolidated statement of profit or loss (Note 22).

It was not possible to determine the fair value of certain unquoted securities amounting to KD 1,728,995 (2016: KD 5,577,594) and hence these investments are stated at cost less impairment losses, if any.

Certain financial assets available for sale investments of a subsidiary with the carrying amount of KD 893,253 (2016: KD 897,183) has been mortgaged as a collateral against the murabaha payable (Note 14).

10. INVESTMENT PROPERTIES

	<u>2017</u>	<u>2016</u>
	KD	KD
Balance at 1 January	19,054,290	18,441,222
Additions during the year	2,820,098	4,027,280
Disposals during the year	(867,755)	(3,605,731)
Effect of foreign exchange differences	(120,877)	70,873
Change in fair value	(170,346)	120,646
	<u>20,715,410</u>	<u>19,054,290</u>

Certain investment properties with a fair value of KD 850,000 (2015: KD 2,293,900) have been mortgaged as collateral against certain Islamic financing payables (Note 14).

During the previous year; one of the subsidiaries sold investment properties costing KD 3,605,731 for KD 3,905,731 and recorded a gain of KD 300,000 in the consolidated statement of profit or loss.

Local investment properties are valued based on two valuation reports, one from a local bank who has valued the investment property using the market comparison approach and the other is a local reputable accredited valuer who has valued the investment property using the sales comparison approach and the yield approach.

Foreign investment properties are also valued based on two valuation reports both of which are from foreign reputable accredited valuers who have valued the investment properties using the sales comparison approach which is categorised as level 2 in the fair value hierarchy.

For the valuation purpose, the Group has selected the lower of these two valuations as at the reporting date.

11. INTANGIBLE ASSETS

Intangible assets represent brokerage license and other intangible assets, which have an indefinite life and are stated at cost less impairment.

Management has performed an assessment of the intangible assets recoverable amount as at the reporting date based on a value in use calculation using cash flow projections as per the financial budgets of the cash generating unit and assuming an annual growth rate in revenues ranging of approximately 20% for a period of 5 years. A pre-tax discount rate of 9 % (2016: 9%) per annum was used to discount the cash flow projections and a growth rate of 3 % (2016: 3.5%) per annum was used in arriving at the terminal value.

The assessment indicated that the recoverable amount of the intangible assets approximates KD 11,894,530 (2016: KD 11,199,134) which was above the carrying amount at the reporting date, and accordingly no impairment loss (2016: Nil) was recognised in the consolidated statement of profit or loss.

If the estimated discount rate for the CGUs had been 5% (2016:5%) higher than management's estimates, the recoverable amount of the Group's CGUs will be lower by KD 931,495 (2016: KD 956,172). Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used reflect specific risks relating to the industry.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

12. PROPERTY AND EQUIPMENT

	Land	Buildings	Motor vehicles	Computer hardware and software	Office equipment and machinery	Furniture and fixtures	Capital work in progress	Total
	KD	KD	KD	KD	KD	KD	KD	KD
Cost								
At 1 January 2016	960,000	11,950,189	20,823,589	1,078,113	3,271,682	2,230,678	7,113,998	47,428,249
Additions	-	458,141	6,669,422	36,145	177,927	86,721	623,741	8,052,097
Transfers	-	3,797,668	-	-	-	459,658	(4,257,326)	-
Disposal	-	-	(4,950,354)	-	-	(12,754)	-	(4,963,108)
At 31 December 2016	960,000	16,205,998	22,542,657	1,114,258	3,449,609	2,764,303	3,480,413	50,517,238
Additions	-	615,403	4,865,217	16,048	39,891	161,564	1,101,315	6,799,438
Disposal	-	-	(6,616,364)	(2,271)	(424,000)	(37,650)	-	(7,080,285)
At 31 December 2017	960,000	16,821,401	20,791,510	1,128,035	3,065,500	2,888,217	4,581,728	50,236,391
Accumulated depreciation								
At 1 January 2016	-	7,170,510	4,713,823	955,845	2,284,661	2,057,485	-	17,182,324
Charge for the year	-	499,248	3,994,673	40,140	43,859	113,591	-	4,691,511
Relating to disposal	-	-	(2,781,708)	-	-	(5,740)	-	(2,787,448)
At 31 December 2016	-	7,669,758	5,926,788	995,985	2,328,520	2,165,336	-	19,086,387
Charge for the year	5,000	615,457	4,214,151	34,661	374,536	166,406	-	5,410,211
Relating to disposals	-	-	(4,587,737)	-	(40,085)	-	-	(4,627,822)
At 31 December 2017	5,000	8,285,215	5,553,202	1,030,646	2,662,971	2,331,742	-	19,868,776
Carrying amount								
At 31 December 2017	955,000	8,536,186	15,238,308	97,389	402,529	556,475	4,581,728	30,367,615
At 31 December 2016	960,000	8,536,240	16,615,869	118,273	1,121,089	598,967	3,480,413	31,430,851
Annual depreciation rates	-	10%	25-33%	25%	25%	25%	-	-

Land includes rights of utilisation of a subsidiary in Al Rai Industrial area amounting to KD 960,000, which is under a lease period for a period of 5 years starting from 8 February 2017 till 7 February 2022 and renewable for other periods subject to new agreements. Contracts for the purchase of vehicles from vendors for lease purposes include terms and conditions granting the Parent Company the right to resell them to the original vendors, at the end of the leasing period and at the contract predetermined price. Depreciation charge for the year amounting to KD 4,208,909 (2016: KD 3,984,032) is included within rental income while depreciation charge for the year amounting to KD 1,201,302 (2016: KD 707,479) is included in general and administration expenses (Note 21). One of the Group's buildings located in Meshrif area are constructed on lands leased from Ministry of Finance - state property management contracts. The contract is for 10 years and expired on November 11, 2012. At the date of issue of the consolidated financial statements, the contract was not renewed and the Group's management is in the process of renewing the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

13. DEPOSITS FROM BANKS AND CUSTOMERS

	2017	2016
	KD	KD
Deposits from banks	30,504,173	31,037,250
Deposits from customers	42,351,420	47,873,246
	<u>72,855,593</u>	<u>78,910,496</u>

Deposits from bank represents deposits made with local and foreign banks and carry an average effective interest rate of 2.050 % (2016: 1.73%) per annum.

Deposits from customers represents deposits made with the parent company and institutions and carry an average effective interest rate of 1.22 % (2016: 0.94%) per annum.

14. ISLAMIC FINANCING PAYABLES

	2017			2016
	Ijara	Murabaha	Total	
	KD	KD	KD	KD
Gross amount	850,000	12,092,253	12,942,253	13,990,129
Less: deferred profit	-	(65,470)	(65,470)	(125,878)
	<u>850,000</u>	<u>12,026,783</u>	<u>12,876,783</u>	<u>13,864,251</u>

The fair value of Islamic financing payables approximates the carrying value as at the reporting date and maturing within a year. The effective profit rate payable approximates 5% (2016: 5%) per annum.

Included in murabaha payables are contracts amounting to KD 1,387,299 (2016: KD 2,963,810) which has been secured by investments in available for sale financial assets amounting to KD 893,253 (2016: KD 897,183) (Note 9).

15. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2017	2016
	KD	KD
Sundry creditors and accrued expenses	11,001,224	7,531,891
Provision for employees' end of service benefits	5,412,185	4,747,215
Provision for employees' leave	636,946	636,063
Rent received in advance	212,130	189,934
Directors' remuneration	95,000	45,000
Accrued interest payable	166,972	156,984
Dividend payable	413,779	377,840
Others	11,737	95,576
	<u>17,949,973</u>	<u>13,780,503</u>

16. SHARE CAPITAL

	2017	2016
	KD	KD
Authorised, issued and fully paid-up share capital of 551,250,000 shares at a nominal value of 100 Kuwaiti Fils, each paid in cash	55,125,000	55,125,000

The Parent Company has one class of ordinary shares, which carries no right to fixed income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

17. TREASURY SHARES

	2017	2016
Number of shares	3,261,581	3,261,581
Percentage of issued shares	0.5917%	0.5917%
Cost ("KD")	734,629	734,629
Market value ("KD")	368,559	277,234

The treasury shares of the Parent company have not been mortgaged or collateralised as at the reporting period. The Parent Company is committed to keeping reserves and retained earning equal to the purchased treasury shares, which are non-distributable along acquisition period according to the instructions of the concerned regulatory authorities.

18. STATUTORY RESERVE

In accordance with the Companies' Law, 10% of profit for the year attributable to shareholders of the Parent Company before KFAS, NLST, Zakat and directors' remuneration is required to be transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve reaches 50% of the paid-up share capital.

Distribution of the statutory reserve is limited to the amount required to enable the payment of dividend of 5% of share capital in years when retained earnings are not sufficient for the payment of dividend of that amount. During the year, an amount of KD 1,734,953 (2016: KD 417,675) was transferred from the current year profits to statutory reserve.

19. VOLUNTARY RESERVE

In accordance with the Parent Company's Articles of Association, 10% of profit for the year attributable to shareholders of the Parent Company before KFAS, NLST, Zakat and directors' remuneration is required to be transferred to the voluntary reserve. This transfer may be discontinued by a resolution adopted by the ordinary assembly of the shareholders' as recommended by the Board of Directors. There are no restrictions on distributions from the voluntary reserve. During the year, an amount of KD 1,734,953 (2016: KD 417,675) was transferred from the current year profits to voluntary reserve.

20. RENTAL INCOME

	2017	2016
	KD	KD
Rental income from investment properties	2,755,915	2,557,300
Rental and other related expenses	(2,024,467)	(2,257,079)
Vehicles rental income (net)	2,487,590	2,553,416
Exhibition income (net)	4,969,536	5,067,618
	<u>8,188,574</u>	<u>7,921,255</u>

21. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include the following:

	2017	2016
	KD	KD
Staff costs	8,548,353	5,971,820
Depreciation	1,201,302	707,479

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

22. IMPAIRMENT LOSSES

	2017 KD	2016 KD
Financial assets available for sale (Note 9)	73,975	1,414,020
Investment in associates (Note 27)	-	687,264
	73,975	2,101,284

23. RELEASE OF PROVISION FOR CREDIT LOSSES

	2017 KD	2016 KD
Accounts receivables and other assets (Note 7)	(63,295)	(58,152)
Settlement on trade receivables	-	47,186
Wakala receivables	2,110,722	(343,755)
Loans and advances (Note 8)	2,303,386	558,387
Investments held to maturity	-	11,438
	4,350,813	215,104

The Parent company settled its wakala receivable of one of its debtors with a third party which had been fully provided in previous years. The settlement resulted in a reversal of provision of KD 2,110,722.

24. OTHER INCOME

Other income includes an amount of KD 1,500,000 which represents provision on legal claims no longer required relating to a subsidiary. This amount was recorded in 2011 and reversed during the current year as the final court order related to the legal claim was in favour of the subsidiary.

25. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY (BASIC AND DILUTED)

Basic and diluted earnings per share is computed by dividing the profit for the year attributable to shareholders of the Parent Company by the weighted average number of shares outstanding during the year, excluding treasury shares.

The Parent Company had no outstanding dilutive potential shares.

	2017	2016
Profit for the year attributable to shareholders of the Parent Company (KD)	16,443,050	3,980,301
Weighted average number of shares outstanding:		
Number of paid up shares (shares)	551,250,000	551,250,000
Less : Weighted average number of treasury shares (shares)	(3,261,581)	(3,261,581)
Weighted average number of shares outstanding (shares)	547,988,419	547,988,419
(Basic and diluted) earnings per share attributable to shareholders of the Parent Company: (fils)	30.006	7.263

26. SUBSIDIARIES

The subsidiaries of the Parent Company, all of which have been included in these consolidated financial statements, are as follows:

Name of subsidiary	Country of incorporation and principal place of business	Proportion of ownership interest at 31 December	
		2017	2016
KIC Financial Brokerage K.S.C. (Closed)	Kuwait	45.47%	45.47%
Kuwait International Fair Company K.S.C. (Closed)	Kuwait	51%	51%
Kuwait Foreign Investment Company	USA	100%	100%
Kuwait Maritime Transportation Company K.S.C. (Closed)	Kuwait	76%	76%
Arab Financial Services Company K.S.C. (Closed)	Kuwait	100%	100%
Al Joan International Holding Company K.S.C. (Closed)	Kuwait	100%	100%
Pearl Company For Economic Consultancy Company W.L.L.	Kuwait	100%	100%
Al Masar Leasing and Investment Company K.S.C. (Closed)	Kuwait	45.75%	45.75%
Al Awaed Fund	Kuwait	99.30%	99.20%
KIC Bond Fund	Kuwait	100%	100%
Al Hilal Islamic Fund	Kuwait	64.03%	65.53%
KIC Euro Equity Fund	Guernsey	99.92%	98.37%
KIC Diversified Fund	Guernsey	100%	100%
KIC Pacific Equity Fund	Guernsey	96.50%	96.50%
KIC North American Equity Fund	Guernsey	100%	99.86%
KIC Global Bond Fund	Guernsey	100%	43.90%

KIC bond Fund, a 100% owned subsidiary is under liquidation.

During the year, certain unitholders of KIC European Equity Fund had redeemed its units in the fund resulting in increase in ownership of the parent company from 98.37% to 99.92% resulting in decrease in non-controlling interests by KD 133,458.

During the year, the unitholder of KIC Global Bond Fund has redeemed its units which resulted in increase the ownership of the parent company from 43.90% to 100% resulting in decrease in non-controlling interests by KD 1,751,737.

During the year, a subsidiary of the Parent Company sold one of its subsidiaries for a consideration of KD 1,025,000 resulting in net gain of KD 175,178 and also resulted in decrease in non-controlling interests by KD 849,822.

During the year; the other movements in ownership of non-controlling interests resulting in increase in non-controlling interests by KD 186.

During the year, the Group ceased to classify Kuwait International Fair Company K.S.C (Closed) (a subsidiary) as non-current assets held for sale and started to consolidate the subsidiary line by line (Note 37).

26. SUBSIDIARIES (Continued)

The table below shows details of non-wholly owned subsidiaries of the Parent Company that have a material non-controlling interest:

Name of subsidiary	Country of incorporation and principal place of business	Proportion of ownership interests held by non-controlling interests at 31 December		(Loss) / profit allocated to non-controlling interests at 31 December		Accumulated non-controlling interests at 31 December	
		2017	2016	2017 KD	2016 KD	2017 KD	2016 KD
Kuwait International Fair Company K.S.C. (Closed)	Kuwait	49%	49%	1,162,057	1,127,187	13,533,592	13,063,697
KIC Financial Brokerage K.S.C. (Closed)	Kuwait	54.53%	54.53%	(40,385)	16,567	6,414,959	6,473,961
Al Masar Leasing and Investment Company K.S.C. Closed	Kuwait	54.25%	54.25%	1,019,563	855,864	9,724,986	9,519,902
Individually immaterial subsidiaries with non-controlling interests				713,798	(101,508)	4,232,537	5,445,196
Total				2,855,033	1,898,110	33,906,074	34,502,756

Summarised financial information in respect of each subsidiary that has material non-controlling interests before intra-group eliminations is presented below: Al Masar Leasing and Investment Company K.S.C. (Closed) itself is a Group of companies and it has its own non-controlling interest

Kuwait International Fair Company K.S.C. (Closed)

	2017 KD	2016 KD
Current assets	18,761,344	19,097,430
Non-current assets	12,809,509	11,383,675
Current liabilities	(1,984,855)	(1,949,162)
Non-current liabilities	(1,967,410)	(1,872,274)
Total equity	27,618,588	26,659,669
Equity attributable to shareholders of the Parent Company	14,084,996	13,595,972
	2017 KD	2016 KD
For the year ended 31 December		
Revenue	5,444,782	5,268,071
Expenses	(3,073,287)	(2,967,723)
Profit	2,371,495	2,300,348

KIC Financial Brokerage K.S.C. (Closed)

	2017 KD	2016 KD
Current assets	811,523	417,815
Non-current assets	11,233,489	11,630,035
Current liabilities	(72,444)	(87,959)
Non-current liabilities	(208,476)	(87,597)
Total equity	11,764,092	11,872,294
Equity attributable to shareholders of the Parent Company	5,349,133	5,398,143

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

26. SUBSIDIARIES (Continued)

	2017 KD	2016 KD
For the year ended 31 December		
Revenue	599,081	586,494
Expenses	(673,142)	(556,113)
(Loss) / profit	(74,061)	30,381
Al Masar Leasing and Investment Company K.S.C. (closed)		
	2017 KD	2016 KD
Total assets	29,368,266	30,128,427
Total liabilities	(14,987,070)	(16,802,563)
Total equity	14,381,196	13,325,864
Equity attributable to shareholders of the Parent Company	4,656,210	3,805,962
For the year ended 31 December		
Revenue	4,469,217	4,120,734
Expenses	(2,805,062)	(2,757,847)
Profit	1,664,155	1,362,887

27. INVESTMENTS IN ASSOCIATES

Name	Principal activity	Place of incorporation	Ownership interest %	
			2017	2016
National Hotels Company B.S.C.	Hotel operations	Bahrain	20.94%	20.94%
Ithraa Capital Company	Investment	Saudi Arabia	23%	23%
Instrata Capital B.S.C.	Investment			
Economic Group for Brokerage E.S.C.	Management Services	Bahrain	20%	20%
Al Riyadh Tower for Real Estate Services (Formerly 'Maritime Tankers and Shipping Company) K.S.C. (Closed)	Brokerage	Egypt	30%	30%
	Shipping	Kuwait	38.76%	38.76%

Summarised financial information (material associates):

National Hotels Company B.S.C.

	2017 KD	2016 KD
As at 30 September		
Total assets	69,826,815	75,651,679
Total liabilities	(3,232,429)	(5,587,031)
	2017 KD	2016 KD
For the period ended 30 September		
Revenue	6,457,702	7,279,922
Profit	2,168,792	2,802,656
Other comprehensive (loss) / income	(3,696,801)	45,111
Total comprehensive (loss) / income	(1,528,009)	2,847,767
Dividends received from associate	224,347	222,193

27. INVESTMENTS IN ASSOCIATES (Continued)

National Hotels Company B.S.C. is equity accounted using 30 September 2017 as it was the latest available financial information.

Summarised financial information (immaterial associates):

	<u>2017</u>	<u>2016</u>
	KD	KD
Total assets	7,106,390	7,102,014
Total liabilities	(624,164)	(565,088)
Revenue	1,628,244	315,147
Profit / (loss)	405,463	(816,563)
Other comprehensive income / (loss)	5,699	(58,588)
Total comprehensive income / (loss)	<u>411,162</u>	<u>(875,151)</u>

Investment in associates includes a quoted associate with carrying value of KD 13,944,864 (2016: KD 14,671,537), having a fair value of KD 5,818,757 (2016: KD 5,255,852). However, management has performed an assessment of the associate's recoverable amount as at the reporting date based on a value in use calculation using cash flow projections as per the financial budgets of the associate and assuming an annual growth rate in revenue of approximately 8% on a five years period.

A pre-tax discount rate of 11% per annum rate was used to discount the cash flow projections and a growth rate of 3% per annum of the future cash flows in arriving at the terminal value. The assessment indicated that the recoverable amount of the associate approximates KD 15,461,639 (2016: 15,289,198) which is above the carrying amount at the reporting date; accordingly no impairment loss was recognised.

If the estimated discount rate for the CGUs had been 2% higher than management's estimates, the recoverable amount of the Group's CGUs will be lower by KD 2,417,106 (2016: KD 1,936,180).

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used reflect specific risks relating to the industry.

During the previous year, the Group reviewed the carrying value of the other investment in associates and determined the investment in associate in Egypt was below the recoverable amount. Accordingly, the Group recognised an impairment loss on its investment in an associate amounting KD 687,264 (Note 22).

There are no contingent liabilities relating to the Group's interest in the associate.

28. ANNUAL GENERAL ASSEMBLY MEETING

The Annual General Assembly Meeting of shareholders was held on 3 May 2017 and approved the consolidated financial statements of the Group for the year ended 31 December 2016 and the Board of Directors recommendation to distribute cash dividend of 7% of the share capital (7 fils per share) to the registered shareholders at the date of the general assembly for the year ended 31 December 2016 and to distribute directors' remuneration of KD 45,000.

The Board of Directors in their meeting held on 08 February 2018 proposed distribution of cash dividend of 20% of the share capital (20 fils per share) (2016: 7% of the share capital (7 fils per share)) for the year ended 31 December 2017 to the registered shareholders at the date of the general assembly, and to distribute directors' remuneration of KD 95,000 (2016: KD 45,000) which is subject to approval of the shareholders annual general assembly

29. FIDUCIARY ASSETS

The Group manages investment portfolios on behalf of the principal shareholder, government agencies and financial institutions. The total value of these portfolios at 31 December 2017 amounted to KD 2.128 billion (2016: KD 2.066 billion) which are not reflected in the consolidated financial statements.

The portfolios have no recourse to the general assets of the Group. The Group makes investment decisions in line with the respective agreements.

Income earned from fiduciary assets amounted to KD 5,874,541 for the year ended 31 December 2017 (2016: KD 5,567,287).

30. RELATED PARTY TRANSACTIONS

Related parties are the Group's shareholders who have representation on the Board of Directors, members of the Board of Directors, senior management, their close family members, associates and subsidiaries. In the normal course of business subject to the Group's management approval, there have been transactions with related parties during the year ended 31 December 2017. Related party balances and transactions are as follows:

	2017	2016
	KD	KD
Consolidated statement of financial position:		
Accounts payable	(22,608)	(22,608)
Deposits from customers	(42,351,420)	(41,742,746)

Transactions carried out with related parties during the year ended 31 December were as follows:

	2017	2016
	KD	KD
Consolidated statement of profit or loss		
Management fees and commission income	2,826,052	2,330,231
Interest expense	(479,255)	(341,616)

Compensation of key management personnel

The compensation of key management personnel and directors during the year was as follows:

	2017	2016
	KD	KD
Salaries and other short-term benefits	493,936	497,601
Executive committees fees	70,000	42,000
Post-employment benefits	149,590	80,859
	<u>713,526</u>	<u>620,460</u>

31. FINANCIAL RISK MANAGEMENT

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports, which analyse exposures by degree and magnitude of risks. These risks include credit risk, market risk (including foreign currency risk, interest rate risk and equity price risk) and liquidity risk.

Credit risk

In the ordinary course of business, the Group uses financial instruments. The use of financial instruments also brings with it associated inherent risks. The Group recognises the relationship between returns and risks associated with the use of financial instruments and the management of risks forms an integral part of the Group's strategic objectives.

31. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

The strategy of the Group is to maintain a strong risk management culture and manage the risk/reward relationship within and across the Group's major risk-based lines of business.

The following sections describe the several risks inherent in the business, their nature and how they are managed. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other condition.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business. The Group mitigates the credit risk by obtaining securities where appropriate.

Maximum exposure to credit risk

An analysis of the Group's financial assets is as follows:

	Gross exposure		Net exposure	
	2017	2016	2017	2016
	KD'000	KD'000	KD'000	KD'000
Cash equivalents	18,826	14,297	18,826	14,297
Placements	15,352	16,293	15,352	16,293
Accounts receivable and other assets	22,207	17,874	18,310	13,990
Wakala receivables	12,543	20,768	1,844	3,094
Loans and advances	22,003	26,473	2,838	4,915
Available for sale financial assets (bonds)	2,361	2,901	2,361	2,901
Investment held to maturity	9,973	10,020	2,987	3,035
Total	103,265	108,626	62,518	58,525

Geographic concentration of maximum exposure to credit risk

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

	GCC	Europe	America	Asia	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
31 December 2017					
Cash equivalents	11,013	6,678	1,135	-	18,826
Placements	15,352	-	-	-	15,352
Accounts receivable and other assets	18,310	-	-	-	18,310
Wakala receivables	1,844	-	-	-	1,844
Loans and advances	2,838	-	-	-	2,838
Available for sale financial assets (bonds)	2,361	-	-	-	2,361
Investment held to maturity	2,987	-	-	-	2,987

31. FINANCIAL RISK MANAGEMENT (Continued)

Geographic concentration of maximum exposure to credit risk (continued)

	<u>GCC</u>	<u>Europe</u>	<u>North America</u>	<u>Asia</u>	<u>Total</u>
	KD'000	KD'000	KD'000	KD'000	KD'000
31 December 2016					
Cash equivalents	12,486	84	1,719	8	14,297
Placements	16,293	-	-	-	16,293
Accounts receivable and other assets	13,808	-	182	-	13,990
Wakala receivable	3,094	-	-	-	3,094
Loans and advances	4,915	-	-	-	4,915
Available for sale financial assets (bonds)	2,901	-	-	-	2,901
Investment held to maturity	3,035	-	-	-	3,035

Credit concentration

The credit limit and balances of the 5 major counterparties at the reporting date are:

<u>2017</u>	<u>2016</u>
Carrying amount KD'000	Carrying amount KD'000
21,439	19,753

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. Credit exposures classified under 'standard' and 'high standard' comprise facilities whose payment performance is fully compliant with contractual conditions and which are not 'impaired'. The classification of these facilities is based on internal management rating and previous history with the counterparty.

	<u>Neither past due nor impaired</u>		
	<u>Standard</u>	<u>High Standard</u>	<u>Total</u>
	KD'000	KD'000	KD'000
31 December 2017			
Cash equivalents	-	18,826	18,826
Placements	-	15,352	15,352
Accounts receivable and other assets	18,310	-	18,310
Wakala receivables	1,844	-	1,844
Loans and advances	2,838	-	2,838
Available for sale financial assets (bonds)	2,361	-	2,361
Investments held to maturity	2,987	-	2,987
	<u>28,340</u>	<u>34,178</u>	<u>62,518</u>
31 December 2016			
Cash equivalents	-	14,297	14,297
Placements	-	16,293	16,293
Accounts receivable and other assets	13,990	-	13,990
Wakala receivables	3,094	-	3,094
Loans and advances	4,915	-	4,915
Available for sale financial assets (bonds)	2,901	-	2,901
Investments held to maturity	3,035	-	3,035
	<u>27,935</u>	<u>30,590</u>	<u>58,525</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

31. FINANCIAL RISK MANAGEMENT (Continued)

Credit quality of financial assets (continued)

The ageing analysis of financial assets is as follows:

31 December 2017	Past due but not impaired	Neither past due nor impaired
	KD'000	KD'000
Up to three months	-	30,644
3 to 6 months	-	5,700
6 to 12 months	3,406	19,595
More than 12 months	-	2,989
	<u>3,406</u>	<u>58,928</u>

31 December 2016	Past due but not impaired	Neither past due nor impaired
	KD'000	KD'000
Up to three months	-	24,667
3 to 6 months	-	3,047
6 to 12 months	5,126	9,850
More than 12 months	-	2
	<u>5,126</u>	<u>37,566</u>

Management has fully provided against financial assets that are individually determined to be impaired amounting to KD 38,522,291 (2016: KD 45,854,989).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity prices.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

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

	Liabilities		Assets	
	2017	2016	2017	2016
	KD'000	KD'000	KD'000	KD'000
US Dollar	53,858	60,609	51,548	66,831
Euro	9,519	8,244	11,076	8,148
Bahraini Dinar	7,691	10,337	15,772	20,279

Foreign exchange rate sensitivity

Based on the Group's financial assets and liabilities held at the year end, an assumed 0.5% increase in exchange rate, with all other variables held constant, would impact the Group's profit and equity as follows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

31. FINANCIAL RISK MANAGEMENT (Continued)

Foreign exchange rate sensitivity (continued)

A positive sign indicates an increase in profit and equity. A negative sign indicates a decrease in profit and equity.

	2017		2016	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
	KD'000	KD'000	KD'000	KD'000
US Dollar	217	206	133	259
Euro	42	50	42	41
Bahraini Dinar	35	75	29	79
	<u>294</u>	<u>331</u>	<u>204</u>	<u>379</u>

There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

Interest rate risk

Interest rate risk is the sensitivity of the Group's financial condition to future movements in interest rates. The Group is exposed to interest rate risk as a result of mismatches or 'gaps' in the amounts of assets and liabilities that mature or reprice in a given period. The Group can reduce this risk by matching the repricing of assets and liabilities through a number of ways.

The Group's effective interest rates on financial instruments and the maturity analysis based on contractual repricing or maturity dates, whichever dates are earlier are as follows:

At 31 December 2017

	Up to	1 - 3	3 - 12	Above	Non	Total	Effective
	1 month	months	months	12	interest		interest
	KD'000	KD'000	KD'000	months	sensitive	KD'000	rate
				KD'000	KD'000		%
Assets							
Cash equivalents	5,643	-	-	-	13,183	18,826	0.44%-1%
Placements	1,346	1,500	5,700	6,806	-	15,352	1.25%
Financial assets at fair value through profit or loss	-	-	-	-	66,730	66,730	-
Accounts receivable and other assets	-	-	-	-	18,310	18,310	-
Wakala receivables	-	-	-	-	1,844	1,844	4%
Loans and advances	-	-	-	-	2,838	2,838	4.25%
Available for sale financial assets	-	-	-	2,361	57,792	60,153	5.75%-7%
Investments held for maturity	-	-	-	-	2,987	2,987	6%
	<u>6,989</u>	<u>1,500</u>	<u>5,700</u>	<u>9,167</u>	<u>163,684</u>	<u>187,040</u>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

31. FINANCIAL RISK MANAGEMENT (Continued)

Interest rate risk (continued)

At 31 December 2017

	Up to 1 month	1 - 3 months	3 - 12 months	Non interest sensitive	Total	Effective interest rate
	KD'000	KD'000	KD'000	KD'000	KD'000	%
Liabilities						
Deposits from banks and customers	52,525	17,455	2,876	-	72,856	0.02%-2.6%
Islamic financing payables	-	-	12,877	-	12,877	5%
Accounts payable and other liabilities	-	-	-	17,949	17,949	
	<u>52,525</u>	<u>17,455</u>	<u>15,753</u>	<u>17,949</u>	<u>103,682</u>	

At 31 December 2016

	Up to 1 month	1 - 3 months	3 - 12 months	Above 12 months	Non interest sensitive	Total	Effective interest rate
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	%
Assets							
Cash equivalents	6,277	-	-	-	8,020	14,297	0.44%-1%
Placements	16,293	-	-	-	-	16,293	1.25%
Financial assets at fair value through profit or loss	-	-	-	-	28,352	28,352	-
Accounts receivable and other assets	-	-	-	-	13,990	13,990	-
Wakala receivables	-	-	-	-	3,094	3,094	4%
Loans and advances	-	-	-	-	4,915	4,915	3.75% -13%
Available for sale financial assets	-	-	-	2,901	102,245	105,146	5.75% -7%
Investments held for maturity	-	-	-	-	3,035	3,035	6%
	<u>22,570</u>	<u>-</u>	<u>-</u>	<u>2,901</u>	<u>163,651</u>	<u>189,122</u>	

	Up to 1 month	1 - 3 months	3 - 12 months	Non interest sensitive	Total	Effective interest rate
	KD'000	KD'000	KD'000	KD'000	KD'000	%
Liabilities						
Deposits from banks and customers	60,528	18,382	-	-	78,910	0.01%-2.25%
Islamic financing payables	-	-	13,864	-	13,864	4.25%-6%
Accounts payable and other liabilities	-	-	-	13,781	13,781	
	<u>60,528</u>	<u>18,382</u>	<u>13,864</u>	<u>13,781</u>	<u>106,555</u>	

31. FINANCIAL RISK MANAGEMENT (Continued)

Interest rate risk (continued)

Based on the Group's financial assets and liabilities held at the year end, an assumed 50 basis points increase in interest rate, with all other variables held constant, would impact the Group's profit as follows:

	Movement in basis points	Effect on profit and equity	
		2017	2016
		KD'000	KD'000
Currency			
■ Kuwaiti Dinars	+50	+90	+41
■ US Dollars	+50	+249	+199

Positive sign indicates an increase in profit and equity. A negative sign indicates a decrease in profit and equity. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

Equity price risk

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

The Group is exposed to equity risk with respect to its investments.

The Group limits equity price risk by maintaining a diversified portfolio and by continuous monitoring of developments in international equity and bond markets. In addition, the Group actively monitors the key factors that affect stock and bond market movements, including analysis of the operational and financial performance of investees. The following table shows the impact on the Group's financial assets sensitive to equity prices considering a 5% change with other factors constant. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

2017

Market indices	% change in equity price	Effect on profit	Effect on equity	Total
		KD'000	KD'000	KD'000
Kuwait stock exchange	± 5	± 80	± 176	± 256
GCC markets	± 5	± 315	-	± 315
Other markets	± 5	± 223	-	± 223

2016

Market indices	% change in equity price	Effect on profit	Effect on equity	Total
		KD'000	KD'000	KD'000
Kuwait stock exchange	± 5	± 197	± 2,639	± 2,836
GCC markets	± 5	± 86	-	± 86

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

31. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis. The table below analyses the Group's non-derivative financial liabilities based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. Balance due over 12 months equal to carrying balance as management maintain minimum balance over 12 months, hence discounting is not significant. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

	2017				2016			
	Less than 3 months	3 - 12 months	Over 1 year	Total	Less than 3 months	3 - 12 months	Over 1 year	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Deposits from banks and customers	69,979	2,877	-	72,856	78,910	-	-	78,910
Islamic financing payables	-	12,877	-	12,877	-	13,864	-	13,864
Accounts payable and other liabilities	1,668	10,869	5,412	17,949	1,668	7,366	4,747	13,781
				103,68				
	<u>71,647</u>	<u>26,623</u>	<u>5,412</u>	<u>2</u>	<u>80,578</u>	<u>21,230</u>	<u>4,747</u>	<u>106,555</u>
Contingent liabilities	-	2,293	-	2,293	-	2,293	-	2,293
Operating lease commitments	1,668	-	10,008	11,676	1,668	-	11,676	13,344

32. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES

	Measured at fair value	Carried at cost	Amortised cost	Total
	KD'000	KD'000	KD'000	KD'000
31 December 2017				
Financial assets:				
Cash and cash equivalents	-	-	18,830	18,830
Placements	-	-	15,352	15,352
Financial assets at fair value through profit or loss	66,730	-	-	66,730
Accounts receivable and other assets (excluding prepayments)	-	-	16,836	16,836
Wakala receivables	-	-	1,844	1,844
Loans and advances	-	-	2,838	2,838
Available for sale financial assets	56,063	1,729	2,361	60,153
Investments held for maturity	-	-	2,987	2,987
Financial liabilities:				
Deposits from banks and customers	-	-	72,856	72,856
Islamic financing payable	-	-	12,877	12,877
Accounts payable and other liabilities	-	-	17,949	17,949

32. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES (Continued)

	Measured at fair value	Carried at cost	Amortised cost	Total
	KD'000	KD'000	KD'000	KD'000
31 December 2016				
Financial assets:				
Cash and cash equivalents	-	-	14,309	14,309
Placements	-	-	16,293	16,293
Financial assets at fair value through profit or loss	28,352	-	-	28,352
Accounts receivable and other assets (excluding prepayments)	-	-	13,990	13,990
Wakala receivables	-	-	3,094	3,094
Loans and advances	-	-	4,915	4,915
Available for sale financial assets	96,667	5,578	2,901	105,146
Investments held for maturity	-	-	3,035	3,035
Financial liabilities:				
Deposits from banks and customers	-	-	78,910	78,910
Islamic financing payable	-	-	13,864	13,864
Accounts payable and other liabilities	-	-	13,781	13,781

The fair value of the following financial assets and liabilities approximate their carrying amounts:

- Cash and cash equivalents
- Placements
- Accounts receivables
- Wakala receivables, loans and receivables and investment held to maturity
- Deposits from banks and customers
- Islamic financing payable
- Accounts payable and other liabilities

Financial instruments measured at fair value

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

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

The level within which the financial asset is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets measured at fair value in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
	KD'000	KD'000	KD'000	KD'000
31 December 2017				
Financial assets at fair value through profit or loss	11,786	53,679	1,265	66,730
Available for sale financial assets				
Quoted securities	3,680	-	-	3,680
Unquoted funds and bonds	-	12,284	-	12,284
Unquoted securities	-	-	42,460	42,460
Total	3,680	12,284	42,460	58,424

32. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES (Continued)

Financial instruments measured at fair value (continued)

31 December 2016	Level 1	Level 2	Level 3	Total
	KD'000	KD'000	KD'000	KD'000
Financial assets at fair value through profit or loss	2,675	24,133	1,544	28,352
Available for sale financial assets				
Quoted securities	4,231	-	-	4,231
Unquoted funds and bonds	-	43,539	-	43,539
Unquoted securities	-	-	51,799	51,799
Total	<u>4,231</u>	<u>43,539</u>	<u>51,799</u>	<u>99,569</u>

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Valuation of unquoted equity investments classified under level 3 is normally based on price to book value technique, dividend yield method and external valuations with marketability discount provided in the range of 20% to 40%.

If marketability discount changes by 5% with all other factors constant, the impact on the profit and equity would be KD 72,526 and KD 2,330,957 respectively.

Reconciliation of Level 3 fair value measurements of available for sale financial assets

	Available for sale financial assets	Financial assets at fair value through profit or loss	Total
	KD'000	KD'000	KD'000
2017			
1 January 2017	51,799	1,544	53,343
Total gains or losses recognised in:			
Consolidated statement of profit or loss	-	(279)	(279)
Other comprehensive income	(6,225)	-	(6,225)
Purchases / sales (net)	(3,114)	-	(3,114)
31 December 2017	<u>42,460</u>	<u>1,265</u>	<u>43,725</u>
2016			
1 January 2016	58,576	1,547	60,123
Total gains or losses recognised in:			
Consolidated statement of profit or loss	-	(3)	(3)
Other comprehensive income	(5,744)	-	(5,744)
Purchases / sales (net)	(1,033)	-	(1,033)
31 December 2016	<u>51,799</u>	<u>1,544</u>	<u>53,343</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

33. CAPITAL RISK MANAGEMENT OBJECTIVES

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Group consists of issued share capital less treasury shares, reserves and retained earnings.

Gearing ratio

The gearing ratio at year end was as follows:

	<u>2017</u>	<u>2016</u>
	KD	KD
Borrowings	85,732,376	92,774,747
Less: Cash and cash equivalents and placements	(34,181,733)	(30,601,990)
Net debt	<u>51,550,643</u>	<u>62,172,757</u>
Equity attributable to shareholders of the Parent Company	<u>127,221,741</u>	<u>125,877,229</u>
Net debt to equity ratio	<u>40.520%</u>	<u>49.392%</u>

During the year, the Group has complied with all externally imposed capital requirements.

34. OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure, or from external events. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall global risk management.

35. CONTINGENT LIABILITIES AND COMMITMENTS

	<u>2017</u>	<u>2016</u>
	KD	KD
Operating lease commitments	<u>11,676,350</u>	<u>13,344,400</u>
Capital commitments	<u>-</u>	<u>248,000</u>
Investment commitments	<u>73,944</u>	<u>75,114</u>

The minimum capital commitments under non-cancellable operating leases are as follows:

	<u>2017</u>	<u>2016</u>
	KD	KD
Not later than one year	<u>1,668,050</u>	<u>1,668,050</u>
Later than one year but not later than five years	<u>8,340,250</u>	<u>8,340,250</u>
Later than five years	<u>1,668,050</u>	<u>3,336,100</u>

36. SEGMENTAL INFORMATION

The Group identifies its operating segments based on internal management reporting information that is regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Parent Company's Executive Committee is the Group's chief operating decision maker has grouped the Group's products and services into the following operating segments:

Asset Management: Consists of quoted securities trading and management of funds and portfolios

Direct Investments and Corporate Finance: Consists of managing subsidiaries, associates, long term strategic investments, real estate and lending activities.

Treasury: Consists of foreign exchange contracts and money market activities.

Other operations: Consists of real estate, rental and management and support activities.

	2017				2016					
	Asset management KD'000	Direct investments and corporate finance KD'000	Treasury KD'000	Other operations KD'000	Total KD'000	Asset management KD'000	Direct investments and corporate finance KD'000	Treasury KD'000	Other operations KD'000	Total KD'000
Income	17,740	5,435	194	6,007	29,376	7,746	8,451	447	3,284	19,928
Expenses	(3,430)	(2,251)	910	(7,389)	(12,160)	(3,123)	(7,344)	874	(4,909)	(14,502)
Segment results	14,310	3,184	1,104	(1,382)	17,216	4,623	1,107	1,321	(1,625)	5,426
Other income	-	-	-	-	2,082	-	-	-	-	452
Profit for the year	-	-	-	-	19,298	-	-	-	-	5,878
Other information										
Segment assets	88,215	113,591	5,972	57,032	264,810	77,241	124,201	8,058	57,435	266,935
Total assets					264,810					266,935
Segment liabilities	80	1,315	74,040	28,247	103,682	197	1,529	80,184	24,645	106,555
Total liabilities					103,682					106,555
Capital expenditure	-	-	-	-	8,870	-	-	-	-	12,079
Depreciation	-	-	-	-	5,411	-	-	-	-	4,691

36. SEGMENTAL INFORMATION (Continued)

The following is the detail of the geographical segments:

	Income		Assets		Capital expenditures	
	2017	2016	2017	2016	2017	2016
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Kuwait	22,004	17,168	165,491	165,644	8,870	12,079
G.C.C.	261	688	62,513	53,674	-	-
Other Middle East and Africa	688	(22)	1,578	5,045	-	-
Europe	5,105	347	27,773	8,756	-	-
America	(32)	1,742	3,066	25,372	-	-
Asia	1,350	5	4,389	8,444	-	-
	<u>29,376</u>	<u>19,928</u>	<u>264,810</u>	<u>266,935</u>	<u>8,870</u>	<u>12,079</u>

37. COMPARATIVE FIGURES

On 14 November 2014, the Board of Directors of the Parent Company announced a plan to dispose of Kuwait International Fair Company K.S.C. (Closed) (a subsidiary).

The sale has been delayed over the expected initial period due to the delay in renewal of certain lease agreements of the subsidiary. On 1 August 2017, The Board of Directors ceased the plan to sell and does not expects to complete the sale of its 51% equity interest in the subsidiary within a period of one year from the reporting date. The Group ceased to classify the asset as held for sale as the criteria are no longer met. Certain comparative figures of the prior financial year have been re-classified to conform to the current financial year presentation.

The Group expects that the fair values less cost to sale of this subsidiary company will be higher than the aggregate carrying amount of the related assets and liabilities; hence it does not affect the previously disclosed profit for the year or equity.

37. COMPARATIVE FIGURES (Continued)

The details of reclassification are as follows:

	Amount before reclassification	Amount after reclassification
Cash and cash equivalents	13,610,575	14,309,114
Placements	814,271	16,292,876
Financial assets at fair value through profit or loss	28,352,171	28,352,171
Accounts receivable and other assets	11,069,333	13,989,619
Wakala receivables	3,093,799	3,093,799
Loans and advances	4,915,203	4,915,203
Financial assets available for sale	102,642,111	105,146,257
Investments held to maturity	3,034,598	3,034,598
Investments in associates	16,273,855	16,273,855
Investment properties	19,054,290	19,054,290
Intangible assets	11,042,602	11,042,602
Property and equipment	22,551,322	31,430,851
	236,454,130	266,935,235
Assets of disposal group classified as held for sale	30,481,105	-
Total assets	266,935,235	266,935,235
Liabilities		
Deposits from banks and customers	78,910,496	78,910,496
Islamic financing payables	13,864,251	13,864,251
Accounts payable and other liabilities	9,959,067	13,780,503
	102,733,814	106,555,250
Liabilities of disposal group classified as held for sale	3,821,436	-
Total liabilities	106,555,250	106,555,250
Total income	14,518,695	19,928,061
Total expenses and other charges	(11,182,715)	(14,305,737)
Operating profit	3,335,980	5,622,324
Other income	438,533	452,537
Profit before contribution to Kuwait Foundation for the Advancement of Science ("KFAS"), National Labour Support Tax ("NLST") and Zakat and Board of Directors remuneration	3,774,513	6,074,861
Profit for the year from continuing operations / profit for the year	3,578,063	5,878,411
Profit for the year from discontinued operations	2,300,348	-
Profit for the year	5,878,411	5,878,411