

Consolidated financial statements and independent auditors' report

Kuwait Financial Centre – KPSC and Subsidiaries

Kuwait

31 December 2018

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Independent auditors' report

To the shareholders of
Kuwait Financial Centre – KPSC
Kuwait

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kuwait Financial Centre - Kuwaiti Public Shareholding Company (the “Parent Company”) and Subsidiaries, (collectively the “Group”), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

Management fees and commission income

The Group manages various funds and portfolios on a fiduciary basis for its customers. In addition, the Group provides corporate advisory and other financial services to clients in debt and capital markets. The Group recognized management fees and commission income arising from these services of KD8,930 thousand (31 December 2017: KD7,302 thousand) for the year ended 31 December 2018 as disclosed in the consolidated statement of profit or loss. The recognition of management fees and commission income is dependent on the terms of the underlying management contracts and corporate advisory mandates agreed between the Group and its clients and/or the funds it manages. Management fees are calculated as a percentage of net asset value of the Assets Under Management as contractually agreed with its customers and varies across different funds and products. The Group’s policy on revenue recognition is disclosed in note 5.3 to the consolidated financial statements.

Independent auditors' report to the shareholders of Kuwait Financial Centre - KPSC (continued)

Management fees and commission income (continued)

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

Other Information included in the Group's 2018 annual report

Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Group for the year ended 31 December 2018, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2018 after the date of our auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

Independent auditors' report to the shareholders of Kuwait Financial Centre - KPSC (continued)

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

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

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

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

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

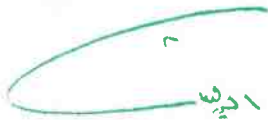
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or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

**Independent auditors' report to the shareholders of
Kuwait Financial Centre - KPSC (continued)**

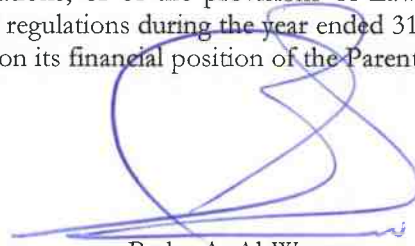
Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No 1 of 2016 and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law, the Executive Regulations, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018 that might have had a material effect on the business or financial position of the Parent Company.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, or of the provisions of Law No. 7 of 2010, concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2018 that might have had a material effect on the business or on its financial position of the Parent Company.



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



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

Kuwait
17 February 2019

Consolidated statement of profit or loss

| | Note | Year ended 31 Dec. 2018 KD '000 | Year ended 31 Dec. 2017 KD '000 |
|---|-------|--|--|
| Revenue | | | |
| Interest income | 8 | 679 | 722 |
| Dividend income | | 1,493 | 1,283 |
| Management fees and commission income | 9 | 8,930 | 7,302 |
| Gain from financial assets at fair value through profit or loss | 10 | 3,477 | 3,340 |
| Gain on redemption of debt instruments at fair value through other comprehensive income | | 5 | - |
| Gain on redemption/sale of available for sale investments | | - | 2,733 |
| Gain on liquidation of subsidiaries | 7.1.2 | 334 | 48 |
| Share of results of associate and joint venture | 21 | (77) | (153) |
| Loss on sale of investment properties | | - | (405) |
| Net rental income | | 517 | 490 |
| Foreign currency exchange (loss)/gain | | (83) | 25 |
| Other income | | 26 | 14 |
| | | 15,301 | 15,399 |
| Expenses and other charges | | | |
| General and administrative expenses | 11 | (9,222) | (8,273) |
| Finance costs | 12 | (1,747) | (1,502) |
| Reversal of provision for credit losses | | 12 | 1 |
| Other expenses | | (158) | (21) |
| Impairment of available for sale investments | | - | (299) |
| Impairment of investment properties | 22 | (2,335) | (993) |
| | | (13,450) | (11,087) |
| Profit before provisions for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Directors' remuneration | | 1,851 | 4,312 |
| Provision for contribution to KFAS | | (22) | (43) |
| Provision for NLST | | (130) | (134) |
| Provision for Zakat | | (52) | (53) |
| Provision for Directors' remuneration | 31 | - | (105) |
| Profit for the year | | 1,647 | 3,977 |
| Profit/(loss) for the year attributable to: | | | |
| Owners of the Parent Company | | 2,285 | 4,428 |
| Non-controlling interests | | (638) | (451) |
| Profit for the year | | 1,647 | 3,977 |
| Basic and diluted earnings per share attributable to the owners of the Parent Company | 13 | 5 Fils | 9 Fils |

The notes set out on pages 11 to 63 form an integral part of these consolidated financial statements.

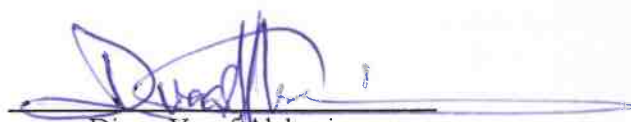
Consolidated statement of profit or loss and other comprehensive income

| | Year ended 31 Dec. 2018 KD '000 | Year ended 31 Dec. 2017 KD '000 |
|---|--|--|
| Profit for the year | 1,647 | 3,977 |
| Other comprehensive income/(loss): | | |
| <i>Items that will be reclassified subsequently to statement of profit or loss:</i> | | |
| <i>Available for sale investments:</i> | | |
| - Net change in fair value arising during the year | - | 774 |
| - Transferred to consolidated statement of profit or loss on redemption/sale | - | (2,733) |
| - Transferred to consolidated statement of profit or loss on impairment | - | 299 |
| <i>Debt instruments at fair value through other comprehensive income:</i> | | |
| - Net change in fair value arising during the year | 11 | - |
| - Transferred to consolidated statement of profit or loss on redemption | (5) | - |
| <i>Foreign currency translation:</i> | | |
| - Exchange differences arising on translation of foreign operations | 154 | (477) |
| Share of other comprehensive loss of associate and joint venture | (77) | (19) |
| Total other comprehensive income/(loss) | 83 | (2,156) |
| Total comprehensive income for the year | 1,730 | 1,821 |
| Total comprehensive income/(loss) for the year attributable to: | | |
| Owners of the Parent Company | 2,352 | 2,281 |
| Non-controlling interests | (622) | (460) |
| | 1,730 | 1,821 |

The notes set out on pages 11 to 63 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

| | Note | 31 Dec. 2018 KD '000 | 31 Dec. 2017 KD '000 |
|---|------|----------------------------|----------------------------|
| Assets | | | |
| Cash and bank balances | 14 | 4,691 | 7,622 |
| Time deposits | 14 | 2,565 | 1,430 |
| Accounts receivable and other assets | 15 | 3,503 | 7,131 |
| Loans to customers | 16 | 304 | 272 |
| Financial assets at fair value through profit or loss | 17 | 92,674 | 49,498 |
| Debt instruments at fair value through other comprehensive income | 18 | 427 | - |
| Investments carried at amortised cost | 19 | 6,998 | - |
| Available for sale investments | 20 | - | 49,842 |
| Investment in associate and joint venture | 21 | 3,651 | 3,231 |
| Investment properties | 22 | 56,830 | 46,450 |
| Equipment | | 878 | 631 |
| Total assets | | 172,521 | 166,107 |
| Liabilities and equity | | | |
| Liabilities | | | |
| Accounts payable and other liabilities | 23 | 10,904 | 10,309 |
| Bank borrowings | 24 | 22,565 | 17,516 |
| Bonds issued | 25 | 25,000 | 25,000 |
| Total liabilities | | 58,469 | 52,825 |
| Equity | | | |
| Share capital | 26 | 48,080 | 48,080 |
| Share premium | 26 | 7,902 | 7,902 |
| Treasury shares | 27 | (260) | - |
| Statutory reserve | 28 | 16,005 | 15,756 |
| Voluntary reserve | 28 | 14,360 | 14,111 |
| Other components of equity | 29 | 555 | 2,890 |
| Retained earnings | | 4,408 | 3,679 |
| Equity attributable to the owners of the Parent Company | | 91,050 | 92,418 |
| Non-controlling interests | 7 | 23,002 | 20,864 |
| Total equity | | 114,052 | 113,282 |
| Total liabilities and equity | | 172,521 | 166,107 |


 Diraar Yusuf Alghanim
 Chairman


 Manaf AbdulAziz Alhajeri
 Chief Executive Officer

The notes set out on pages 11 to 63 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

| | Equity attributable to the owners of the Parent Company | | | | | | | Non-controlling interests | Total | |
|--|---|--------------------------|---------------------------|------------------------------|------------------------------|---|------------------------------|---------------------------|--------|----------------------|
| | Share capital KD '000 | Share premium KD '000 | Treasury shares KD'000 | Statutory reserve KD '000 | Voluntary reserve KD '000 | Other components of equity of equity (note 29) KD '000 | Retained earnings KD '000 | | | Sub Total KD '000 |
| | | | | | | | | | | |
| Balance at 1 January 2018 | 48,080 | 7,902 | - | 15,756 | 14,111 | 2,890 | 3,679 | 92,418 | 20,864 | 113,282 |
| Adjustments arising on adoption of IFRS 9 on 1 January 2018 (refer note 4.1) | - | - | - | - | - | (2,402) | 2,402 | - | - | - |
| Balance at 1 January 2018 (Restated) | 48,080 | 7,902 | - | 15,756 | 14,111 | 488 | 6,081 | 92,418 | 20,864 | 113,282 |
| Purchase of treasury shares | - | - | (260) | - | - | - | - | (260) | - | (260) |
| Net change in non-controlling interests | - | - | - | - | - | - | - | - | 2,666 | 2,666 |
| Effect of change in ownership percentage of subsidiaries (refer note 7) | - | - | - | - | - | - | (94) | (94) | 94 | - |
| Payment of cash dividend (refer note 30) | - | - | - | - | - | - | (3,366) | (3,366) | - | (3,366) |
| Transactions with owners | - | - | (260) | - | - | - | (3,460) | (3,720) | 2,760 | (960) |
| Profit/(loss) for the year | - | - | - | - | - | - | 2,285 | 2,285 | (638) | 1,647 |
| Total other comprehensive income | - | - | - | - | - | 67 | - | 67 | 16 | 83 |
| Total comprehensive income/(loss) for the year | - | - | - | - | - | 67 | 2,285 | 2,352 | (622) | 1,730 |
| Transfer to reserves | - | - | - | 249 | 249 | - | (498) | - | - | - |
| Balance at 31 December 2018 | 48,080 | 7,902 | (260) | 16,005 | 14,360 | 555 | 4,408 | 91,050 | 23,002 | 114,052 |

The notes set out on pages 11 to 63 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)

| | Equity attributable to the owners of the Parent Company | | | | | | | Non-controlling interests | Total | |
|--|---|--------------------------|------------------------------|------------------------------|--|----------------------|------------------------------|---------------------------|---------|----------------------|
| | Share capital KD '000 | Share premium KD '000 | Statutory reserve KD '000 | Voluntary reserve KD '000 | Other components of equity of equity (note 29) | | Retained earnings KD '000 | | | Sub Total KD '000 |
| | | | | | Retained earnings KD '000 | Sub Total KD '000 | | | | |
| Balance at 1 January 2017 | 48,080 | 7,902 | 15,280 | 13,635 | 5,037 | 3,341 | 93,275 | 22,000 | 115,275 | |
| Net change in non-controlling interests | - | - | - | - | - | - | - | 1,346 | 1,346 | |
| Effect arising on liquidation of subsidiaries | - | - | - | - | - | - | - | (2,241) | (2,241) | |
| Effect of change in ownership percentage of subsidiaries | - | - | - | - | - | (253) | (253) | 253 | - | |
| Payment of cash dividend (refer note 30) | - | - | - | - | - | (2,885) | (2,885) | - | (2,885) | |
| Payment of cash dividend to non-controlling interests | - | - | - | - | - | - | - | (34) | (34) | |
| Transactions with owners | - | - | - | - | - | (3,138) | (3,138) | (676) | (3,814) | |
| Profit/(loss) for the year | - | - | - | - | - | 4,428 | 4,428 | (451) | 3,977 | |
| Total other comprehensive loss | - | - | - | - | (2,147) | - | (2,147) | (9) | (2,156) | |
| Total comprehensive (loss)/income for the year | - | - | - | - | (2,147) | 4,428 | 2,281 | (460) | 1,821 | |
| Transfer to reserves | - | - | 476 | 476 | - | (952) | - | - | - | |
| Balance at 31 December 2017 | 48,080 | 7,902 | 15,756 | 14,111 | 2,890 | 3,679 | 92,418 | 20,864 | 113,282 | |

The notes set out on pages 11 to 63 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

| | Note | Year ended 31 Dec. 2018 KD '000 | Year ended 31 Dec. 2017 KD '000 |
|---|-----------|--|--|
| OPERATING ACTIVITIES | | | |
| Profit for the year | | 1,647 | 3,977 |
| Adjustments for: | | | |
| Interest income | | (679) | (722) |
| Dividend income | | - | (1,283) |
| Depreciation | | 490 | 388 |
| Gain on redemption of debt instruments at fair value through OCI | | (5) | - |
| Gain on redemption/sale of available for sale investments | | - | (2,733) |
| Gain on liquidation of subsidiaries | | (334) | (48) |
| Share of results of associate and joint venture | | 77 | 153 |
| Loss on sale of investment properties | | - | 405 |
| Impairment of available for sale investments | | - | 299 |
| Impairment of investment properties | | 2,335 | 993 |
| Reversal of provision for credit losses | | (12) | (1) |
| Finance costs | | 1,747 | 1,502 |
| | | 5,266 | 2,930 |
| Changes in operating assets and liabilities: | | | |
| Financial assets at fair value through profit or loss | | 1,588 | (6,457) |
| Accounts receivable and other assets | | 3,627 | (1,829) |
| Loans to customers | | (20) | (19) |
| Accounts payable and other liabilities | | 604 | 1,959 |
| Net cash from/(used in) operating activities | | 11,065 | (3,416) |
| INVESTING ACTIVITIES | | | |
| Change in time deposits maturing after three months | | 805 | 31 |
| Purchase of equipment | | (540) | (361) |
| Proceeds from redemption/sale of available for sale investments | | - | 16,482 |
| Proceeds from redemption of debt instruments at fair value through OCI | | 23 | - |
| Purchase of available for sale investments | | - | (23,680) |
| Purchase of investments carried at amortised cost | | (2,025) | - |
| Addition to investment properties | | (12,128) | (13,726) |
| Proceeds from sale of investment properties | | - | 1,279 |
| Increase in investment in joint venture | | (574) | (401) |
| Proceeds from liquidation of subsidiaries (net of cash and cash equivalent) | | - | 5,061 |
| Dividend income received | | - | 1,283 |
| Interest income received | | 666 | 737 |
| Net cash used in investing activities | | (13,773) | (13,295) |
| FINANCING ACTIVITIES | | | |
| Dividend paid | | (3,371) | (2,933) |
| Dividend paid to non-controlling interests shareholders | | - | (34) |
| Proceeds from bank borrowings | | 16,992 | 14,517 |
| Repayment of bank borrowings | | (11,943) | (5,147) |
| Purchase of treasury shares | | (260) | - |
| Net change in non-controlling interests | | 2,666 | (894) |
| Finance costs paid | | (2,247) | (1,778) |
| Net cash from financing activities | | 1,837 | 3,731 |
| Decrease in cash and cash equivalents | | (871) | (12,980) |
| Foreign currency adjustments | | (120) | (31) |
| Cash and cash equivalents at the beginning of the year | 14 | 8,226 | 21,237 |
| Cash and cash equivalents at the end of the year | 14 | 7,235 | 8,226 |

The notes set out on pages 11 to 63 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 Incorporation and activities

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

The principal activities of the Parent Company are as follows:

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

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

The Parent Company’s Board of Directors approved these consolidated financial statements for issue on 17 February 2019 and are subject to the approval of the General Assembly of the shareholders of the Parent Company.

Notes to the consolidated financial statements (continued)

2 Basis of preparation

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

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

3 Statement of compliance

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (“CBK”) in the State of Kuwait. These regulations require expected credit loss (“ECL”) to be measured at the higher of the ECL on credit facilities computed under IFRS 9 according to the CBK guidelines or the provisions as required by CBK instruction; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”) (collectively referred to as IFRS, as adopted for use by the State of Kuwait).

4 Changes in accounting policies

4.1 New and amended standards adopted by the Group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2018 which have been adopted by the Group. Information on these new standards which are relevant to the Group, is presented below:

| <i>Standard or Interpretation</i> | <i>Effective for annual periods beginning</i> |
|---|---|
| IFRS 9 Financial Instruments: Classification and Measurement | 1 January 2018 |
| IFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9 | 1 January 2018 |

Several other amendments and interpretations apply for the first time in 2018, but do not have a material impact on the consolidated financial statements of the Group.

Impact of initial application of IFRS 9 Financial Instruments

During the year, the Group has applied IFRS 9 Financial Instruments effective from 1 January 2018 (as revised in July 2014) with the exception of requirements of the Expected Credit Losses (“ECL”) on credit facilities as noted in note 3 above. The transition provisions of IFRS 9 allow an entity not to restate comparatives.

Further, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

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

Impact of initial application of IFRS 9 Financial Instruments (continued)

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below:

a) Classification and Measurement of Financial Assets

The date of initial application is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to financial instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to financial instruments that continue to be recognised as at 1 January 2018 have not been restated.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

When a debt investment measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVOCI are subject to impairment.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

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

Impact of initial application of IFRS 9 Financial Instruments (continued)

(b) Impairment of financial assets

Impairment of credit facilities (loans to customers):

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

Impairment of financial assets other than credit facilities:

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

- (1) Debt instruments measured subsequently at amortised cost or at FVOCI;
- (2) Trade receivables and contract assets; and
- (3) Financial guarantee contracts.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables and contract assets.

The Group has applied simplified approach to impairment for trade and other receivables (represented by management fees and other dues from clients) as required or permitted under the standard. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The measurement of receivables under IFRS 9 did not have a material impact on the consolidated statement of profit or loss of the Group.

The Group's balances with banks are low risk and are considered to be fully recoverable and hence measurement of bank balances under IFRS 9 did not have a material impact on the consolidated statement of profit or loss of the Group. The Group's debt instruments measured at FVOCI and amortised cost comprised of mortgaged note receivables and sukuk which are not rated but considered to be low credit risk investments. It is the Group's policy to measure such instruments on a 12-month ECL basis. However, the ECL provision on these balances are not material to the Group's consolidated financial statements. In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

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

Impact of initial application of IFRS 9 Financial Instruments (continued)

(b) Impairment of financial assets (continued)

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the Group's exposure to credit risk in the consolidated financial statements (refer note 36 for details).

(c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised.

Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The Group does not have any financial liabilities designated as at FVTPL, hence the application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

(d) General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

(e) Disclosures in relation to the initial application of IFRS 9

The management of the Group reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

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

Impact of initial application of IFRS 9 Financial Instruments (continued)

The following table shows the previous measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as of 1 January 2018:

| | Original Classification under IAS 39 | New classification under IFRS 9 | Original Carrying amount under IAS 39 KD '000 | Re- measurement - ECL/others KD '000 | New carrying amount under IFRS 9 KD '000 |
|---|--|---------------------------------------|---|---|---|
| Financial assets | | | | | |
| Cash and bank balances | Loans and receivables | At amortized cost | 7,622 | - | 7,622 |
| Time deposits | Loans and receivables | At amortized cost | 1,430 | - | 1,430 |
| Accounts receivable and other assets* | Loans and receivables | At amortized cost | 4,832 | - | 4,832 |
| Loans to customer | Loans and receivables | At amortized cost | 272 | - | 272 |
| Derivative: | | | | | |
| - Forward foreign currency contracts held for trading | FVTPL (included in other assets) | FVTPL | 17 | - | 17 |
| Investments: | | | | | |
| - Debt instruments (Sukuk) | AFS | At amortized cost | 4,973 | - | 4,973 |
| - Debt instruments (others) | AFS | FVOCI | 439 | - | 439 |
| - Fixed income securities | FVTPL | FVTPL | 761 | - | 761 |
| - Managed funds | AFS | FVTPL | 25,129 | - | 25,129 |
| - Managed funds | FVTPL | FVTPL | 22,071 | - | 22,071 |
| - Quoted securities | AFS | FVTPL | 4,362 | - | 4,362 |
| - Quoted securities | FVTPL | FVTPL | 26,666 | - | 26,666 |
| - Unquoted securities | AFS | FVTPL | 1,305 | - | 1,305 |
| - Equity participation | AFS | FVTPL | 13,634 | - | 13,634 |

*Excluding non-financial assets of KD2,282 thousand and derivative of KD17 thousand.

(AFS - Available for sale, FVOCI – Fair value through other comprehensive income, FVTPL - Fair value through profit or loss)

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

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

Impact of initial application of IFRS 9 Financial Instruments (continued)

The following table summarises the new measurement categories under IFRS 9 by class of financial asset as at 1 January 2018:

| | IFRS 9 Categories | | |
|---|--|--|---|
| | Financial assets at Fair Value Through Profit or Loss (FVTPL) KD '000 | Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) KD '000 | Financial Assets at Amortised cost KD '000 |
| Cash and bank balances | - | - | 7,622 |
| Time deposits | - | - | 1,430 |
| Accounts receivable and other assets excluding derivative | - | - | 4,832 |
| Derivative | 17 | - | - |
| Loans to customers | - | - | 272 |
| Investments | 93,928 | 439 | 4,973 |
| Balance at 1 January 2018 | 93,945 | 439 | 19,129 |

Impairment of Credit facilities (loans to customers)

The adoption of IFRS 9 did not result in any change in the classification and measurement of loans to customers. These credit facilities are carried at amortised cost less any amounts written off and provision for impairment. The provision for impairment is based on the provisioning requirements of Central Bank of Kuwait as long as it is the higher.

Summary of impact on application of IFRS 9:

As allowed by the transition provisions of IFRS 9, the Group elected not to restate comparative information for prior periods with respect to classification and measurement, and impairment requirements. Accordingly, the information presented for the comparative periods does not generally reflect the requirements of IFRS 9 but rather those of IAS 39. However, there are no differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 as disclosed above.

The implementation of IFRS 9 has resulted in the following impact:

| Assets | Balance at 31 December 2017 as reported KD '000 | Adjustments KD '000 | Balance at 1 January 2018 as restated KD '000 |
|---|--|------------------------|--|
| Financial assets at fair value through profit or loss | 49,498 | 44,430 | 93,928 |
| Investments at amortized cost | - | 4,973 | 4,973 |
| Debt instruments at fair value through other comprehensive income | - | 439 | 439 |
| Available for sale investments | 49,842 | (49,842) | - |

The following table analyses the impact on transition to IFRS 9 to fair value reserve and retained earnings:

| | Fair value reserve KD '000 | Retained earnings KD '000 |
|---|-------------------------------|------------------------------|
| Closing balance under IAS 39 – 31 December 2017 | 2,477 | 3,679 |
| Impact of reclassifications & re-measurements: Securities, equity participation and managed funds from available for sale to FVTPL | (2,402) | 2,402 |
| Adjustments arising on adoption of IFRS 9 -1 January 2018 | (2,402) | 2,402 |
| Opening balance under IFRS 9 – 1 January 2018 | 75 | 6,081 |

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

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

IFRS 15 Revenue from Contracts with Customers

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

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group recognises revenue from the following major sources:

- Management fee and commission income which represent asset management, custody incentive fee and commission income and other management fees. The Group has reassessed its revenue recognition policy and has concluded that it will continue to recognize fees when services are rendered. Hence, application of IFRS 15 on 1 January 2018 did not have any material impact on the Group’s consolidated financial statements.
- Dividend income represents distributions made by investments classified in accordance with IFRS 9. The Group has reassessed its revenue recognition policy and has concluded that it will continue to recognize revenue at the time the rights to receive cash flows is established. Hence, application of IFRS 15 on 1 January 2018 did not have any material impact on the Group’s consolidated financial statements.

4.2 IASB Standards issued but not yet effective

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

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

| <i>Standard or Interpretation</i> | <i>Effective for annual periods beginning</i> |
|---|---|
| IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments | No stated date |
| IFRS 16 Leases | 1 January 2019 |
| IFRIC 23 Uncertainty over income tax treatments | 1 January 2019 |
| IAS 28 - Amendments | 1 January 2019 |
| IAS 1 and IAS 8 - Amendments | 1 January 2020 |
| IFRS 3 - Amendments | 1 January 2020 |
| Annual Improvements to IFRS Standards 2015–2017 Cycle | 1 January 2019 |

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

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

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

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

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

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

IFRS 16 Leases

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

Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, management is in the process of:

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

IFRIC 23 Uncertainty over income tax treatments

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

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRIC 23 Uncertainty over income tax treatments (continued)

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

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

IAS 28 – Amendments

The amendments to IAS 28 clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

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

IAS 1 and IAS 8 – Amendments

The amendments to IAS 1 and IAS 8 clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

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

IFRS 3 – Amendments

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

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

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

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

Annual Improvements to IFRSs 2015-2017 Cycle

Amendments to IFRS 3 and IFRS 11 - Clarify that when an entity obtains control of a business that is a joint operation it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.

IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows *generally* when calculating the capitalisation rate on general borrowings

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

5 Summary of significant accounting policies

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

5.1 Basis of consolidation

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

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

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.1 Basis of consolidation (continued)

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

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

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

5.1.1 Structured entities

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

5.2 Business combinations

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

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

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.2 Business combinations (continued)

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

5.3 Revenue recognition

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

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

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

The Group recognises revenue from the following major sources:

5.3.1 Rendering of services

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

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

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

Fee income from providing transaction services

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

5.3.2 Interest income

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

5.3.3 Dividend income

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

5.3.4 Rental income

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.3 Revenue recognition (continued)

5.3.5 Revenue from sale of investment properties

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

5.4 Operating expenses

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

5.5 Borrowing costs

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

5.6 Taxation

5.6.1 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

5.6.2 National Labour Support Tax (NLST)

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

5.6.3 Zakat

Contribution to Zakat is calculated at 1% of the profit of the Group attributable to the shareholders of the Parent Company in accordance with the Ministry of Finance Resolution No. 58/2007 effective from 10 December 2007.

5.6.4 Taxation on overseas subsidiaries

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

5.7 Investment in associate

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.7 Investment in associate (continued)

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

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

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

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

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

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

5.8 Investment in joint venture

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

5.9 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Properties under development also include properties that are being constructed or developed for future use as investment properties and are not depreciated.

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.9 Investment properties (continued)

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

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

5.10 Equipment

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

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

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

The following useful lives are applied:

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

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

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

5.11 Financial instruments

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

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.11 Financial instruments (continued)

5.11.1 Classification and Measurement of Financial assets

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

Business model assessment

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

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

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

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

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

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

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

Financial assets carried at Amortised cost:

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

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.11 Financial instruments (continued)

5.11.1 Classification and Measurement of Financial assets (continued)

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

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

- *Loans and advances*

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

- *Accounts receivable and other assets*

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

- *Debt instruments*

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

- *Cash and cash equivalents*

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

Financial asset carried at FVTPL:

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

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

Equity instruments at FVOCI:

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

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.11 Financial instruments (continued)

5.11.1 Classification and Measurement of Financial assets (continued)

Debt instruments at FVOCI:

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

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

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

Foreign exchange gains and losses on financial assets:

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

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

Impairment of Financial Assets:

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

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

Equity investments are not subject to Expected Credit Losses.

Impairment of loans to customers:

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.11 Financial instruments (continued)

5.11.1 Classification and Measurement of Financial assets (continued)

Impairment of Financial Assets: (continued)

Impairment of financial assets other than loans to customers:

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

Expected Credit Losses

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

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

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

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

Determining the stage of impairment

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

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.11 Financial instruments (continued)

5.11.1 Classification and Measurement of Financial assets (continued)

Measurement of ECLs

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

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

Provision for credit losses in accordance with CBK instructions

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

A credit facility is classified as a bad loan (non-performing loan) when the interest or a principal instalment is past due more than 365 days and if the carrying amount of the facility is greater than its estimated recoverable value, such facility is then fully provided. In addition to specific provisions, minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning. Past due and past due and impaired loans are managed and monitored as irregular facilities.

5.11.2 Classification and Measurement of Financial Liabilities

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

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

- ***Financial liabilities at amortised cost***

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.11 Financial instruments (continued)

5.11.2 Classification and Measurement of Financial Liabilities (continued)

- *Financial liabilities at amortised cost (continued)*

Accounts payable and other liabilities

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

Borrowings:

Murabaha facilities

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

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

Bonds

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

Foreign exchange gains and losses on financial liabilities:

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

Derecognition of financial assets and financial liabilities:

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.11 Financial instruments (continued)

5.11.2 Classification and Measurement of Financial Liabilities (continued)

Derivative financial instruments and hedge accounting:

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

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

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

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

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

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

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

5.12 Trade and settlement date accounting

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

5.13 Amortised cost of financial instruments

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

5.14 Offsetting of financial instruments

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.15 Fair value of financial instruments

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

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

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

5.16 Impairment testing of non-financial assets

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

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

5.17 Equity, reserves and dividend payments

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

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

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

Other components of equity include the following:

- foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into Kuwait Dinars.
- Fair value reserve – comprises gains and losses relating to financial assets which are categorised as financial assets at fair value through other comprehensive income.

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

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.18 Treasury shares

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

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

5.19 Provisions, contingent assets and contingent liabilities

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

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

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

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

5.20 Foreign currency translation

5.20.1 Foreign currency transactions

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

5.20.2 Foreign operations

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

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.21 End of service indemnity

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

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

5.22 Fiduciary assets

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

5.23 Segment reporting

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

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

6 Significant management judgements and estimation uncertainty

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

6.1 Significant management judgments

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

6.1.1 Business model assessment

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

6.1.2 Classification of real estate

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

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

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty (continued)

6.1 Significant management judgments (continued)

6.1.2 *Classification of real estate (continued)*

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

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

6.1.3 *Control assessment*

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

6.2 Estimates uncertainty

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

6.2.1 *Impairment of associate and joint venture*

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

6.2.2 *Impairment of financial assets*

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

6.2.3 *Provision for credit losses*

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

6.2.4 *Impairment of investment properties*

The group reviews the carrying amounts of its investment properties to determine whether there is any indication that those assets have suffered an impairment loss in accordance with accounting policies stated in note 5.9, the recoverable amount of an asset is determined based on higher of fair value and value in use.

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty (continued)

6.2 Estimates uncertainty (continued)

6.2.5 Depreciation of investment properties and equipment

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

6.2.6 Fair value of financial instruments

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

7 Subsidiary companies

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

| Name of the subsidiary | Country of incorporation | Ownership percentage | | Principal activity |
|---|--------------------------|----------------------|--------------|----------------------|
| | | 31 Dec. 2018 | 31 Dec. 2017 | |
| | | % | % | |
| Mar-Gulf Management Inc. | USA | 100.00 | 100.00 | Assets management |
| Markaz First Management and Economic Consultancy Company – KSCC | Kuwait | 95.00 | 95.00 | Economic consultancy |
| Markaz Arabian Fund (note 7.1.1) | Bahrain | 69.75 | 58.92 | Investment Fund |
| Markaz Fixed Income Fund (note 7.1.1) | Kuwait | 76.38 | 78.21 | Investment Fund |
| Markaz Mena Islamic Fund (note 7.1.2) | Kuwait | - | 100.00 | Investment Fund |
| MDI Management Limited | Cayman Islands | 66.66 | 66.66 | Property management |
| MDI Ventures Ltd | Cayman Islands | 50.00 | 50.00 | Property management |
| Markaz Offshore I Ltd. | Cayman Islands | 100.00 | 100.00 | Investment |
| Marmore Mena Intelligence Private Limited | India | 98.73 | 98.73 | Consultancy |
| Aradi Development Limited | Cayman Islands | 96.89 | 96.89 | Real Estate |
| Markaz Real Estate Investment Company WLL | KSA | 100.00 | 100.00 | Real Estate |
| Rimal Venture Company WLL | Bahrain | 100.00 | 100.00 | Assets management |
| Arab Gulf Real Estate Development Company WLL | Kuwait | 99.85 | 99.85 | Real Estate |
| Bay View Real Estate Company WLL | Kuwait | 99.85 | 99.85 | Real Estate |
| Boardwalk International Real Estate Company WLL | Kuwait | 99.85 | 99.85 | Real Estate |
| Al Rihab Real Estate Development Company WLL | Kuwait | 99.85 | 99.85 | Real Estate |
| Al Bandriya Real Estate Company WLL | Kuwait | 99.85 | 99.85 | Real Estate |
| Sand Park Real Estate Co. SPC | Kuwait | 100.00 | 100.00 | Real Estate |

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

7.1.1 The ownership of Markaz Arabian Fund and Markaz Fixed Income Fund increased by 10.83% and decreased by 1.83% respectively (31 December 2017: increased by 0.75% and 4.55% respectively) due to changes in units held by non-controlling interest holders as a result of subscription and redemption of the fund's units. These changes in the ownership resulted in a net loss of KD94 thousand which was included in the consolidated statement of changes in equity.

7.1.2 Liquidation of a subsidiary fund

During the year, the Group has liquidated its 100% owned subsidiary fund "Markaz Mena Islamic Fund". The resulting gain of KD334 thousand was recognised in the consolidated statement of profit or loss.

7.2 Subsidiaries with material non-controlling interests

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

| Name | Proportion of ownership interests and voting rights held by the NCI | | (Loss)/profit allocated to NCI | | Accumulated NCI | |
|--|---|-----------------|-----------------------------------|-----------------|-----------------|-----------------|
| | 31 Dec. 2018 | 31 Dec. 2017 | 31 Dec. 2018 | 31 Dec. 2017 | 31 Dec. 2018 | 31 Dec. 2017 |
| | % | % | KD '000 | KD '000 | KD '000 | KD '000 |
| Arab Gulf Real Estate Development Company WLL | 0.15 | 0.15 | (55) | (157) | 5,045 | 3,424 |
| Bay View Real Estate Company WLL | 0.15 | 0.15 | (683) | (36) | 5,100 | 4,920 |
| Al Rihab Real Estate Development Company WLL | 0.15 | 0.15 | (36) | (78) | 4,180 | 3,906 |
| Markaz Arabian Fund | 30.25 | 41.08 | 267 | 65 | 3,645 | 4,101 |
| Individually immaterial subsidiaries with non-controlling interests | | | (131) | (245) | 5,032 | 4,513 |
| | | | (638) | (451) | 23,002 | 20,864 |

No dividend was paid to the NCI during the year (31 December 2017: 34 thousand).

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

7.2 Subsidiaries with material non-controlling interests (continued)

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

| | 31 December 2018 | | | | 31 December 2017 | | | |
|---|-------------------------------------|------------------------------------|------------------------------------|--------------------------------------|-------------------------------------|------------------------------------|------------------------------------|--------------------------------------|
| | Arab Gulf Real Estate KD '000 | Bay View Real Estate KD '000 | Al Rihab Real Estate KD '000 | Markaz Arabian Fund KD '000 | Arab Gulf Real Estate KD '000 | Bay View Real Estate KD '000 | Al Rihab Real Estate KD '000 | Markaz Arabian Fund KD '000 |
| Non-current assets | 16,969 | 15,450 | 9,915 | - | 9,667 | 11,956 | 8,500 | - |
| Current assets | 203 | 624 | 88 | 12,112 | 1,004 | 1,072 | 674 | 10,035 |
| Total assets | 17,172 | 16,074 | 10,003 | 12,112 | 10,671 | 13,028 | 9,174 | 10,035 |
| Liabilities | (6,410) | (8,503) | (236) | (63) | (3,459) | (5,746) | (233) | (53) |
| Total liabilities | (6,410) | (8,503) | (236) | (63) | (3,459) | (5,746) | (233) | (53) |
| Equity attributable to the owners of the Parent Company | 5,717 | 2,471 | 5,587 | 8,404 | 3,788 | 2,362 | 5,035 | 5,881 |
| Non-controlling interests | 5,045 | 5,100 | 4,180 | 3,645 | 3,424 | 4,920 | 3,906 | 4,101 |
| Total equity | 10,762 | 7,571 | 9,767 | 12,049 | 7,212 | 7,282 | 8,941 | 9,982 |

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

7.2 Subsidiaries with material non-controlling interests (continued)

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

| | 31 December 2018 | | | | 31 December 2017 | | | |
|---|-------------------------------------|------------------------------------|------------------------------------|--------------------------------------|-------------------------------------|------------------------------------|------------------------------------|--------------------------------------|
| | Arab Gulf Real Estate KD '000 | Bay View Real Estate KD '000 | Al Rihab Real Estate KD '000 | Markaz Arabian Fund KD '000 | Arab Gulf Real Estate KD '000 | Bay View Real Estate KD '000 | Al Rihab Real Estate KD '000 | Markaz Arabian Fund KD '000 |
| Revenue | 9 | - | 7 | 1,134 | - | - | - | 384 |
| (Loss)/profit for the year attributable to the owners of the Parent Company | (59) | (303) | (49) | 615 | (166) | (16) | (106) | 92 |
| (Loss)/profit for the year attributable to NCI | (55) | (683) | (36) | 267 | (157) | (36) | (78) | 65 |
| (Loss)/profit for the year | (114) | (986) | (85) | 882 | (323) | (52) | (184) | 157 |
| Total other comprehensive income/(loss) | 60 | 30 | 33 | (83) | 86 | (120) | (98) | 38 |
| Total comprehensive (loss)/income for the year | (54) | (956) | (52) | 799 | (237) | (172) | (282) | 195 |
| Total comprehensive (loss)/income for the year attributable to the owners of the Parent Company | (28) | (293) | (30) | 557 | (122) | (53) | (161) | 115 |
| Total comprehensive (loss)/income for the year attributable to NCI | (26) | (663) | (22) | 242 | (115) | (119) | (121) | 80 |
| Total comprehensive (loss)/income for the year | (54) | (956) | (52) | 799 | (237) | (172) | (282) | 195 |
| | 31 December 2018 | | | | 31 December 2017 | | | |
| | Arab Gulf Real Estate KD '000 | Bay View Real Estate KD '000 | Al Rihab Real Estate KD '000 | Markaz Arabian Fund KD '000 | Arab Gulf Real Estate KD '000 | Bay View Real Estate KD '000 | Al Rihab Real Estate KD '000 | Markaz Arabian Fund KD '000 |
| Net cash from/(used in) operating activities | 1,346 | 14 | 127 | (864) | 1,368 | 228 | (390) | 439 |
| Net cash used in investing activities | (7,361) | (4,368) | (1,351) | - | (4,391) | (4,445) | (3,623) | - |
| Net cash from/(used in) financing activities | 5,922 | 4,036 | 1,014 | 1,133 | 3,007 | 4,752 | 4,111 | (129) |
| Net cash (outflow)/inflow | (93) | (318) | (210) | 269 | (16) | 535 | 98 | 310 |

Notes to the consolidated financial statements (continued)

8 Interest income

| | Year ended 31 Dec. 2018 KD '000 | Year ended 31 Dec. 2017 KD '000 |
|--|--|--|
| On financial assets at amortised cost: | | |
| - Time deposits | 46 | 33 |
| - Loans to customers | 29 | 17 |
| - Investments carried at amortised cost | 243 | - |
| On financial assets at fair value through profit or loss | 322 | 35 |
| On debt instruments at fair value through OCI | 39 | - |
| Available for sale investments | - | 463 |
| Other | - | 174 |
| | 679 | 722 |

9 Management fees and commission income

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

10 Gain from financial assets at fair value through profit or loss

| | Year ended 31 Dec. 2018 KD '000 | Year ended 31 Dec. 2017 KD '000 |
|---|--|--|
| Change in fair value of financial assets at fair value through profit or loss | 1,596 | 2,410 |
| Gain on sale of financial assets at fair value through profit or loss | 1,881 | 930 |
| | 3,477 | 3,340 |

11 General and administrative expenses

| | Year ended 31 Dec. 2018 KD '000 | Year ended 31 Dec. 2017 KD '000 |
|----------------|--|--|
| Staff costs | 5,444 | 5,407 |
| Depreciation | 490 | 388 |
| Other expenses | 3,288 | 2,478 |
| | 9,222 | 8,273 |

12 Finance costs

| | Year ended 31 Dec. 2018 KD '000 | Year ended 31 Dec. 2017 KD '000 |
|---|--|--|
| On financial liabilities at amortised cost: | | |
| - Bonds issued | 1,272 | 1,243 |
| - Bank borrowings | 475 | 259 |
| | 1,747 | 1,502 |

Notes to the consolidated financial statements (continued)

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

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

| | Year ended 31 Dec. 2018 | Year ended 31 Dec. 2017 |
|---|-------------------------------|-------------------------------|
| Profit for the year attributable to the owners of the Parent Company (KD '000) | 2,285 | 4,428 |
| Weighted average number of shares outstanding and in issue during the year (excluding treasury shares) | 480,682,536 | 480,801,747 |
| Basic and diluted earnings per share attributable to the owners of the Parent Company | 5 Fils | 9 Fils |

14 Cash and cash equivalents

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

| | 31 Dec. 2018 KD '000 | 31 Dec. 2017 KD '000 |
|---|----------------------------|----------------------------|
| Cash and bank balances | 4,691 | 7,622 |
| Time deposits | 2,565 | 1,430 |
| | 7,256 | 9,052 |
| Less: Time deposits maturing after three months | (21) | (826) |
| Cash and cash equivalent for the purpose of consolidated statement of cash flows | 7,235 | 8,226 |

The Group's time deposits carry an average effective interest rate of 1.08% (31 December 2017: 0.81%) per annum.

15 Accounts receivable and other assets

| | 31 Dec. 2018 KD '000 | 31 Dec. 2017 KD '000 |
|---|----------------------------|----------------------------|
| Management fees and commission receivable | 1,401 | 1,196 |
| Prepayments | 454 | 507 |
| Advance payments to contractors | 172 | 1,775 |
| Due from a related party (refer note 31) | - | 2,118 |
| Interest receivable | 90 | 77 |
| Other receivables | 1,386 | 1,458 |
| | 3,503 | 7,131 |

Notes to the consolidated financial statements (continued)

15 Accounts receivable and other assets (continued)

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

Management fees and commission receivable comprise of;

| | 31 Dec. 2018 KD '000 | 31 Dec. 2017 KD '000 |
|-------------------------------|----------------------------|----------------------------|
| Neither past due nor impaired | 1,094 | 1,025 |
| Past due but not impaired | 307 | 171 |
| | 1,401 | 1,196 |

Aging of past due but not impaired balances:

| | 31 Dec. 2018 KD '000 | 31 Dec. 2017 KD '000 |
|----------------|----------------------------|----------------------------|
| 0 to 90 days | 122 | 116 |
| 90 to 180 days | 43 | 23 |
| Above 180 days | 142 | 32 |
| | 307 | 171 |

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

16 Loans to customers

| | 31 Dec. 2018 KD '000 | 31 Dec. 2017 KD '000 |
|-----------------------------|----------------------------|----------------------------|
| Personal loans* | 791 | 761 |
| Provision for credit losses | (487) | (489) |
| | 304 | 272 |

*The interest rate on personal loans ranged from 2.00% to 10.00% (31 December 2017: 2.00% to 10.00%) per annum. All loans are denominated in KD or US Dollars.

The maturity profile of loans to customers is as follows:

| | 31 Dec. 2018 KD '000 | 31 Dec. 2017 KD '000 |
|----------------------------------|----------------------------|----------------------------|
| Between one month and six months | 3 | 3 |
| Between six months and one year | 14 | 3 |
| Over one year | 290 | 269 |
| Non-performing loans | 484 | 486 |
| | 791 | 761 |

Notes to the consolidated financial statements (continued)

16 Loans to customers (continued)

Provision for credit losses is made in accordance with Central Bank of Kuwait requirements. The total non-performing loans which have been fully provided amounts to KD484 thousand (31 December 2017: KD486 thousand). The remaining loans to customers of KD307 thousand are performing and are to staff where their indemnity balances exceed the loans balance outstanding.

17 Financial assets at fair value through profit or loss

| | 31 Dec. 2018 KD '000 | 31 Dec. 2017 KD '000 |
|---------------------------|----------------------------|----------------------------|
| Local quoted securities | 2,857 | 2,903 |
| Foreign quoted securities | 18,137 | 23,763 |
| Local managed funds | 42,764 | 22,071 |
| Foreign managed funds | 13,039 | - |
| Fixed income securities | 5,518 | 761 |
| Equity participation | 10,359 | - |
| | 92,674 | 49,498 |

The interest rates on fixed income securities range from 2.375% to 7.50% (31 December 2017: 7.00% to 9.00%) per annum.

18 Debt instruments at fair value through other comprehensive income

This represents investment in foreign debt instrument amounting to KD427 thousand which is secured by charges over real estate properties and carry average interest rate of 7.25% (31 December 2017: 7.25%) per annum.

19 Investments carried at amortised cost

These represent investment in sukuk, a debt instrument amounting to KD4,983 thousand carrying profit rate of 2% above Central Bank of Kuwait discount rate (31 December 2017: 2% above Central Bank of Kuwait discount rate) per annum and in a debt instrument amounting to KD2,015 thousand carrying an interest rate of 3% per annum.

20 Available for sale investments

| | 31 Dec. 2018 KD '000 | 31 Dec. 2017 KD '000 |
|----------------------|----------------------------|----------------------------|
| Quoted securities | - | 4,362 |
| Unquoted securities | - | 1,305 |
| Managed funds | - | 25,129 |
| Equity participation | - | 13,634 |
| Debt instruments | - | 5,412 |
| | - | 49,842 |

The Group has partially applied, for the first time, IFRS 9 “Financial Instruments” as described in note 3 effective from 1 January 2018. Accordingly, the management of the Group has re-classified its available for sale investments as described in Note 4.

Notes to the consolidated financial statements (continued)

21 Investment in associate and joint venture

| | 31 Dec. 2018 KD '000 | 31 Dec. 2017 KD '000 |
|---|----------------------------|----------------------------|
| Investment in associate (refer below) | 1,821 | 1,904 |
| Investment in joint venture (refer below) | 1,830 | 1,327 |
| | 3,651 | 3,231 |

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

| Company name | Investment classification | Principal Activities | Place of incorporation | 31 Dec. 2018 % | 31 Dec. 2017 % |
|--|-----------------------------|----------------------------|------------------------|----------------------|----------------------|
| First Equilease for Equipment and Transportation Company-KSCC (Unquoted) | Investment in associate | Transportation and Renting | Kuwait | 17.24 | 17.24 |
| MZES Gayrimenkul Alim Satim Company (Unquoted) | Investment in joint venture | Real Estate | Turkey | 50 | 50 |

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

| | First Equilease | | MZES | |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
| | 31 Dec. 2018 KD '000 | 31 Dec. 2017 KD '000 | 31 Dec. 2018 KD '000 | 31 Dec. 2017 KD '000 |
| Carrying value at the beginning of the year | 1,904 | 2,041 | 1,327 | 961 |
| Additions during the year | - | - | 574 | 401 |
| Share of results of associate/joint venture | (85) | (128) | 8 | (25) |
| Share of other comprehensive income/(loss) | 2 | (9) | (79) | (10) |
| | 1,821 | 1,904 | 1,830 | 1,327 |

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

| | First Equilease | | MZES | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD'000 | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD'000 |
| Non-current assets | 1,069 | 1,590 | 3,354 | 2,488 |
| Current assets | 9,984 | 9,916 | 314 | 181 |
| Non-current liabilities | (62) | (45) | - | - |
| Current liabilities | (182) | (180) | (8) | (15) |
| Non-controlling interests | (248) | (239) | - | - |
| Equity attributable to the owners of the Parent Company | 10,561 | 11,042 | 3,660 | 2,654 |

Notes to the consolidated financial statements (continued)

21 Investment in associate and joint venture (continued)

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

| | First Equilease | | MZES | |
|--|---|---|---|---|
| | Year ended 31 Dec. 2018 KD'000 | Year ended 31 Dec. 2017 KD'000 | Year ended 31 Dec. 2018 KD'000 | Year ended 31 Dec. 2017 KD'000 |
| Revenue | 625 | 752 | - | - |
| (Loss)/profit for the year | (493) | (742) | 16 | (50) |
| Other comprehensive income/(loss) for the year | 13 | (52) | (158) | (20) |

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

| | First Equilease | | MZES | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD'000 | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD'000 |
| Net assets of the associate and joint venture | 10,561 | 11,042 | 3,660 | 2,654 |
| Group's ownership interest | 17.24% | 17.24% | 50% | 50% |
| Group's share of net assets | 1,821 | 1,904 | 1,830 | 1,327 |
| Carrying amount | 1,821 | 1,904 | 1,830 | 1,327 |

The Group has accounted for its share of results of associate and joint venture using unaudited management accounts as at 31 December 2018.

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

22 Investment properties

The movement in investment properties is as follows:

| | Free hold lands KD'000 | Projects under development KD'000 | Lands & buildings KD'000 | Total KD'000 |
|---------------------------------|------------------------------|--|--------------------------------|-----------------|
| 31 December 2018 | | | | |
| Cost | | | | |
| At 1 January 2018 | 17,035 | 18,696 | 11,022 | 46,753 |
| Additions | - | 12,544 | 92 | 12,636 |
| Transfers | (3,155) | (6,197) | 9,352 | - |
| Impairment | (1,570) | - | (765) | (2,335) |
| Foreign currency adjustment | 107 | 20 | 149 | 276 |
| At 31 December 2018 | 12,417 | 25,063 | 19,850 | 57,330 |
| Accumulated depreciation | | | | |
| At 1 January 2018 | - | - | (303) | (303) |
| Charge for the year | - | - | (197) | (197) |
| At 31 December 2018 | - | - | (500) | (500) |
| Net book value | | | | |
| At 31 December 2018 | 12,417 | 25,063 | 19,350 | 56,830 |

Notes to the consolidated financial statements (continued)

22 Investment properties (continued)

The movement in investment properties is as follows (continued):

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

At 31 December 2018, the fair value of the investment properties is KD64,777 thousand (31 December 2017: KD48,979 thousand). Investment properties were revalued by independent evaluators using market comparable approach that reflects recent transaction prices for similar properties and is therefore classified under level 2. In estimating the fair value of investment properties, the highest and best use as their current use. There has been no change to the valuation technique during the year.

During the year, the Group recognised an impairment loss of KD2,335 thousand (31 December 2017: KD993 thousand) in respect of certain investment properties.

During the year, finance costs of KD508 thousand (31 December 2017: KD336 thousand) has been capitalised to investment properties under development.

The Groups investment properties are located as below:

| | 31 Dec. 2018 KD '000 | 31 Dec. 2017 KD '000 |
|---------------|----------------------------|----------------------------|
| North America | 424 | 392 |
| GCC | 56,406 | 46,058 |
| | 56,830 | 46,450 |

23 Accounts payable and other liabilities

| | 31 Dec. 2018 KD '000 | 31 Dec. 2017 KD '000 |
|--------------------------|----------------------------|----------------------------|
| Accrued expenses | 2,250 | 2,405 |
| Post-employment benefits | 3,170 | 2,875 |
| Dividend payable | 357 | 362 |
| Payable to contractors | 2,924 | 2,787 |
| Other liabilities | 2,203 | 1,880 |
| | 10,904 | 10,309 |

Notes to the consolidated financial statements (continued)

24 Bank borrowings

This represents following bank borrowings:

- a. Unsecured loan facilities amounting to KD24,800 thousand obtained from local commercial banks carry interest rate ranging from 1.5% to 2.5% above Central Bank of Kuwait discount rate. Outstanding balance of these loan facilities as at 31 December 2018 amounted to KD5,099 thousand (31 December 2017: KD4,128 thousand).
- b. Unsecured two Murabaha facilities were obtained from a local Islamic bank amounting to KD8,000 thousand with a profit rate of 1.5% to 1.9% above Central Bank of Kuwait discount rate. Outstanding balance of these Murabaha facilities as at 31 December 2018 amounted to KD4,929 thousand (31 December 2017: KD5,958 thousand).
- c. Unsecured two loan facilities were obtained from a foreign commercial bank amounting to AED142,350 thousand equivalent to KD11,756 thousand and carry an interest rate of 3.25% to 3.50% above 3 month EIBOR. Outstanding balance of these loan facilities as at 31 December 2018 amounted to AED123,904 thousand equivalents to KD10,232 thousand (31 December 2017: AED68,577 thousand equivalents to KD5,635 thousand).
- d. An unsecured credit facility amounting to USD 10 million was approved from a foreign commercial bank which carries an interest rate of 3.275% per annum. No amount has been availed from this loan facility as of 31 December 2018. (31 December 2017: USD5,950 thousand equivalents to KD1,795 thousand).
- e. During the year, unsecured loan facility of USD16,585 thousand equivalent to KD5,030 thousand obtained from a local commercial bank carrying interest rate of 3% above 3 months LIBOR repayable on every six months and mature on 31 October 2022. Outstanding balance of this loan facility as at 31 December 2018 amounted to USD7,600 thousand equivalent to KD2,305 thousand. The purpose of this facility is to finance the real estate activities in certain foreign countries.

25 Bonds issued

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

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

26 Share capital and share premium

- a) Share capital

| | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD'000 |
|--|---------------------------|---------------------------|
| Authorised: 480,801,747 shares of 100 Kuwaiti Fils each | 48,080 | 48,080 |
| Issued and fully paid: 480,801,747 shares of 100 Kuwaiti Fils each | 48,080 | 48,080 |

- b) Share premium

Share premium is not available for distribution.

Notes to the consolidated financial statements (continued)

27 Treasury shares

| | 31 Dec. 2018 | 31 Dec. 2017 |
|-----------------------------|-----------------|-----------------|
| Number of shares | 2,600,000 | - |
| Percentage of issued shares | 0.54% | - |
| Market value (KD '000) | 250 | - |
| Cost (KD'000) | 260 | - |

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

28 Reserves

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

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

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

29 Other components of equity

| | Fair value reserve KD'000 | Foreign currency translation reserve KD'000 | Total KD'000 |
|---|---------------------------------|---|-----------------|
| Balance at 1 January 2018 | 2,477 | 413 | 2,890 |
| Adjustments arising on adoption of IFRS 9 on 1 January 2018 (note 4.1) | (2,402) | - | (2,402) |
| Balance at 1 January 2018 (restated) | 75 | 413 | 488 |
| <i>Debt instruments at fair value through other comprehensive income:</i> | | | |
| - Net change in fair value arising during the year | 9 | - | 9 |
| - Transferred to consolidated statement of profit or loss on redemption | (5) | - | (5) |
| Exchange differences arising on translation of foreign operations | - | 140 | 140 |
| Share of other comprehensive loss of associate and joint venture | - | (77) | (77) |
| Total other comprehensive income | 4 | 63 | 67 |
| Balance at 31 December 2018 | 79 | 476 | 555 |
| Balance at 1 January 2017 | 4,141 | 896 | 5,037 |
| <i>Available for sale investments :</i> | | | |
| - Net change in fair value arising during the year | 769 | - | 769 |
| - Transferred to consolidated statement of profit or loss on redemption | (2,732) | - | (2,732) |
| - Transferred to consolidated statement of profit or loss on impairment | 299 | - | 299 |
| Exchange differences arising on translation of foreign operations | - | (464) | (464) |
| Share of other comprehensive loss of associate and joint venture | - | (19) | (19) |
| Total other comprehensive loss | (1,664) | (483) | (2,147) |
| Balance at 31 December 2017 | 2,477 | 413 | 2,890 |

Notes to the consolidated financial statements (continued)

30 Proposed dividends and Annual General Assembly

The Board of Directors of the Parent Company has proposed a cash dividend of 4 Fils per share for the year ended 31 December 2018. The proposed dividend is subject to the approval of the shareholders at the Parent Company's Annual General Assembly

The Annual General Assembly of the shareholders held on 14 March 2018 approved the consolidated financial statements of the Group for the year ended 31 December 2017 and approved cash dividend of 7 Fils per share (31 December 2016: 6 Fils per share) amounting to KD3,366 thousand (31 December 2016: KD2,885 thousand). Dividends were paid after the Annual General Assembly of the shareholders.

31 Related party transactions

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

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

| | 31 Dec. 2018 | 31 Dec. 2017 |
|---|-----------------|-----------------|
| | KD '000 | KD '000 |
| Transactions included in the consolidated statement of profit or loss: | | |
| Interest income on loans to customers | 22 | 4 |
| Management fees and commission | 4,903 | 4,653 |
| <hr/> | | |
| Key management compensation: | | |
| Salaries and other short term benefits | 772 | 771 |
| End of service benefits | 99 | 184 |
| Audit committee fees | 15 | 15 |
| Board of Directors' remuneration | - | 105 |
| | 886 | 1,075 |

| | 31 Dec. 2018 | 31 Dec. 2017 |
|---|-----------------|-----------------|
| | KD '000 | KD '000 |
| Balances included in the consolidated statement of financial position: | | |
| Loans to customers | 22 | 32 |
| Accounts receivable and other assets | 1,337 | 1,048 |
| Due from a related party* | - | 2,118 |
| Accounts payable and other liabilities | 1,670 | 1,664 |

* This represents a secured short term advance payment given to a related party with an interest rate of 6% per annum. During the year, the Parent Company has received the total amount due in cash.

32 Segmental information

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

Notes to the consolidated financial statements (continued)

32 Segmental information (continued)

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

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

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

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

| | Asset Management | | Investment Banking | | Total | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD'000 | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD'000 | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD'000 |
| Segment revenue | 12,029 | 13,759 | 3,272 | 1,640 | 15,301 | 15,399 |
| Segment result | 711 | 4,216 | 1,140 | 96 | 1,851 | 4,312 |
| Provisions for KFAS, NLST, Zakat and Board of Directors' remuneration | (154) | (321) | (50) | (14) | (204) | (335) |
| Profit for the year | 557 | 3,895 | 1,090 | 82 | 1,647 | 3,977 |
| Total assets | 153,528 | 142,102 | 18,993 | 24,005 | 172,521 | 166,107 |
| Total liabilities | 48,718 | 42,953 | 9,751 | 9,872 | 58,469 | 52,825 |
| Interest income | 115 | 145 | 564 | 577 | 679 | 722 |
| Finance costs | (1,398) | (1,342) | (349) | (160) | (1,747) | (1,502) |
| Depreciation | (280) | (261) | (210) | (127) | (490) | (388) |
| Impairment of available for sale investments | - | (241) | - | (58) | - | (299) |
| Impairment of investment properties | (2,335) | (993) | - | - | (2,335) | (993) |
| Purchase of equipment | (467) | (60) | (73) | (301) | (540) | (361) |
| Addition to investment properties | (12,636) | (14,062) | - | - | (12,636) | (14,062) |

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

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

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

33 Fiduciary accounts

The Group manages portfolios on behalf of others, mutual funds and maintains cash balances and securities in fiduciary accounts, which are not reflected in the consolidated statement of financial position. Assets under management at 31 December 2018 amounted to KD1,093,010 thousand (31 December 2017: KD1,026,984 thousand). The Group earned management fee of KD7,206 thousand (31 December 2017: KD6,583 thousand) from the asset management activities.

Notes to the consolidated financial statements (continued)

34 Commitments

| | 31 Dec. 2018 KD '000 | 31 Dec. 2017 KD '000 |
|---|----------------------------|----------------------------|
| Commitments for purchase of investments | 1,686 | 4,018 |
| Commitments for investment properties | 3,526 | 16,606 |
| | 5,212 | 20,624 |

35 Forward foreign exchange contracts

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

| | 31 Dec. 2018 | | 31 Dec. 2017 | |
|------------------------------------|----------------------------------|------------------------------------|----------------------------------|------------------------------------|
| | Contractual amounts KD'000 | Assets/ (liabilities) KD'000 | Contractual amounts KD'000 | Assets/ (liabilities) KD'000 |
| Forward foreign exchange contracts | 18,213 | (64) | 10,903 | 17 |

36 Risk management objectives and policies

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

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

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

36.1 Market risk

a) Foreign currency

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

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

Notes to the consolidated financial statements (continued)

36 Risk management objectives and policies (continued)

36.1 Market risk (continued)

a) Foreign currency (continued)

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

| | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD'000 |
|--------------|---------------------------|---------------------------|
| US Dollar | 42,660 | 28,695 |
| Saudi Riyals | 5,963 | 5,320 |
| Euro | 1,923 | 296 |
| Others | 858 | 1,268 |

Foreign currency sensitivity is determined based on 2% (31 December 2017: 2%) increase or decrease in exchange rate. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

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

| | 31 Dec. 2018 | | 31 Dec. 2017 | |
|---------------------|----------------|----------------|----------------|----------------|
| | + 2% KD'000 | - 2% KD'000 | + 2% KD'000 | - 2% KD'000 |
| Profit for the year | 1,028 | (1,028) | 712 | (712) |

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

b) Interest and profit rate risk

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

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

c) Equity price risk

This is a risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market. The Group is exposed to equity price risk with respect to its listed equity investments which are primarily located in Kuwait, USA, and GCC. Equity investments are classified as "financial assets at fair value through profit or loss" (31 December 2017: "financial assets at fair value through profit or loss" and "available for sale investments").

Notes to the consolidated financial statements (continued)

36 Risk management objectives and policies (continued)

36.1 Market risk (continued)

c) Equity price risk (continued)

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

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

| | Profit for the year | | Equity | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD'000 | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD'000 |
| Financials assets at fair value through profit or loss | ±420 | ±533 | - | - |
| Available for sale investments | - | - | - | ±87 |

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

36.2 Credit risk

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

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

| | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD'000 |
|--|---------------------------|---------------------------|
| Bank balances | 4,689 | 7,620 |
| Time deposits | 2,565 | 1,430 |
| Accounts receivable and other assets (excluding prepayment and advance payments) | 2,877 | 4,849 |
| Financial assets at fair value through profit or loss | 5,518 | 5,169 |
| Loans to customers | 304 | 272 |
| Debt instruments at fair value through other comprehensive income | 427 | - |
| Investments at amortised cost | 6,998 | - |
| Available for sale investments | - | 30,541 |
| | 23,378 | 49,881 |

Notes to the consolidated financial statements (continued)

36 Risk management objectives and policies (continued)

36.2 Credit risk (continued)

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

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

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

36.3 Concentration of assets

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

| | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD '000 |
|---------------|---------------------------|----------------------------|
| Kuwait | 12,676 | 28,690 |
| North America | 2,694 | 4,489 |
| GCC | 2,013 | 2,484 |
| Europe | 5,891 | 13,413 |
| Others | 104 | 805 |
| | 23,378 | 49,881 |

36.4 Liquidity risk

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

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

Notes to the consolidated financial statements (continued)

36 Risk management objectives and policies (continued)

36.4 Liquidity risk (continued)

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

| | Upto 1 month KD'000 | Upto 1-3 months KD'000 | 3-12 months KD'000 | 1 to 5 years KD'000 | Total KD'000 | Weighted average effective interest/profit rate % |
|---|---------------------------|------------------------------|--------------------------|---------------------------|-----------------|--|
| 31 December 2018 | | | | | | |
| Financial liabilities | | | | | | |
| Accounts payable and other liabilities | 2,452 | 335 | 4,447 | 499 | 7,733 | |
| Bank borrowings | 602 | 5,372 | 1,185 | 20,913 | 28,072 | 4.5% to 6.2% |
| Bonds issued | - | 327 | 980 | 27,615 | 28,922 | 5.25% |
| | 3,054 | 6,034 | 6,612 | 49,027 | 64,727 | |
| 31 December 2017 | | | | | | |
| Financial liabilities | | | | | | |
| Accounts payable and other liabilities | 2,717 | 1,681 | 3,036 | - | 7,434 | |
| Bank borrowings | 9,754 | 240 | 2,312 | 5,890 | 18,196 | 2.9% to 5.3% |
| Bonds issued | - | 313 | 938 | 28,750 | 30,001 | 5% |
| | 12,471 | 2,234 | 6,286 | 34,640 | 55,631 | |

Maturity profile of assets and liabilities at 31 December 2018:

| | Within 1 year KD'000 | Over 1 year KD'000 | Total KD'000 |
|--|----------------------------|--------------------------|-----------------|
| Assets | | | |
| Cash and bank balances | 4,691 | - | 4,691 |
| Time deposits | 2,565 | - | 2,565 |
| Accounts receivable and other assets | 3,299 | 204 | 3,503 |
| Loans to customers | 17 | 287 | 304 |
| Financial assets at fair value through profit or loss | 92,674 | - | 92,674 |
| Debt instruments at fair value through other comprehensive income | - | 427 | 427 |
| Investments carried at amortised cost | - | 6,998 | 6,998 |
| Investment in associate and joint venture | - | 3,651 | 3,651 |
| Investment properties | - | 56,830 | 56,830 |
| Equipment | - | 878 | 878 |
| | 103,246 | 69,275 | 172,521 |
| Liabilities | | | |
| Accounts payable and other liabilities | 7,234 | 3,670 | 10,904 |
| Bank borrowings | 6,101 | 16,464 | 22,565 |
| Bonds issued | - | 25,000 | 25,000 |
| | 13,335 | 45,134 | 58,469 |

Notes to the consolidated financial statements (continued)

36 Risk management objectives and policies (continued)

36.4 Liquidity risk (continued)

Maturity profile of assets and liabilities at 31 December 2017:

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

36.5 Structured entities (Special Purpose Vehicle)

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

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

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

These investments are included in financial assets at fair value through profit or loss (31 December 2017: available for sale investments) in the statement of consolidated financial position.

| Funding Strategy | Type of activities | Number of SPVs | Fair value of Group's investment in SPVs KD '000 | % of Net asset attributable to Group |
|------------------|---------------------------|--------------------------|---|--------------------------------------|
| Equity | Investment in real estate | 10 (31 December 2017: 9) | 5,557 (31 December 2017: 8,026) | 18.08% (31 December 2017: 27.25%) |

Notes to the consolidated financial statements (continued)

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

37.1 Categories of financial assets and liabilities

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

| | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD'000 |
|--|---------------------------|---------------------------|
| Financial assets: | | |
| <i>Financial assets at amortised cost:</i> | | |
| - Cash and bank balances | 4,691 | 7,622 |
| - Time deposits | 2,565 | 1,430 |
| - Accounts receivable and other assets (excluding prepayment and advance payments) | 2,877 | 4,832 |
| - Loans to customers | 304 | 272 |
| - Investments carried at amortised cost | 6,998 | - |
| <i>Financial assets at fair value through profit or loss</i> | 92,674 | 49,498 |
| <i>Debt instruments at fair value through other comprehensive income</i> | 427 | - |
| <i>Available for sale investments:</i> | | |
| - At fair value | - | 49,842 |
| <i>Forward foreign exchange contracts</i> | | |
| - At fair value | - | 17 |
| Total financial assets | 110,536 | 113,513 |
| Financial liabilities: | | |
| <i>Financial liabilities at amortised cost:</i> | | |
| - Accounts payable and other liabilities | 10,840 | 10,309 |
| - Bank borrowings | 22,565 | 17,516 |
| - Bonds issued | 25,000 | 25,000 |
| <i>Forward foreign exchange contracts</i> | | |
| - At fair value | 64 | - |
| Total financial liabilities | 58,469 | 52,825 |

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

37.2 Fair value hierarchy

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

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

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

Notes to the consolidated financial statements (continued)

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

37.2 Fair value hierarchy (continued)

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

| 31 December 2018 | KD'000 | | | |
|--|---------------|---------------|---------------|---------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at fair value through profit or loss | | | | |
| Quoted securities | 20,994 | - | - | 20,994 |
| Managed funds-GCC | - | 55,803 | - | 55,803 |
| Equity participations | - | - | 10,359 | 10,359 |
| Fixed income securities | 3,764 | - | 1,754 | 5,518 |
| | 24,758 | 55,803 | 12,113 | 92,674 |
| Derivative | | | | |
| Forward foreign currency contracts held for trading | - | (64) | - | (64) |
| Financial assets at fair value through OCI | | | | |
| Debt instruments | - | - | 427 | 427 |
| | 24,758 | 55,739 | 12,540 | 93,037 |
| 31 December 2017 | KD'000 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at fair value through profit or loss | | | | |
| Quoted securities | 26,666 | - | - | 26,666 |
| Managed funds-GCC | - | 22,071 | - | 22,071 |
| Fixed income securities | 761 | - | - | 761 |
| | 27,427 | 22,071 | - | 49,498 |
| Derivative | | | | |
| Forward foreign currency contracts held for trading | - | 17 | - | 17 |
| Available for sale investments | | | | |
| Quoted securities | 4,362 | - | - | 4,362 |
| Managed funds | | | | |
| - GCC | - | 14,427 | - | 14,427 |
| - Others | - | 10,702 | - | 10,702 |
| Debt instruments | - | - | 5,412 | 5,412 |
| Equity participations | - | - | 13,634 | 13,634 |
| Unquoted securities | - | - | 1,305 | 1,305 |
| | 4,362 | 25,129 | 20,351 | 49,842 |
| | 31,789 | 47,217 | 20,351 | 99,357 |

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

Notes to the consolidated financial statements (continued)

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

37.2 Fair value hierarchy (continued)

Measurement at fair value

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

a) Quoted securities

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

b) Unquoted securities

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

c) Investment in managed funds

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

Notes to the consolidated financial statements (continued)

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

37.2 Fair value hierarchy (continued)

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

| Financial assets | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key input (s) | Significant unobservable input (s) | Relationship of unobservable inputs to fair value |
|---|------------------------|------------------------|----------------------|--|--------------------------------------|---|
| | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD'000 | | | | |
| Financial assets at FVTPL: | | | | | | |
| Quoted securities | 20,994 | 26,666 | 1 | Quoted bid prices | N/A | N/A |
| Managed funds | 55,803 | 22,071 | 2 | NAV Basis | N/A | N/A |
| Fixed income securities | 3,764 | 761 | 1 | Quoted bid prices | N/A | N/A |
| Fixed income securities | 1,754 | - | 3 | Discounted cash flows | Cash flow estimate and discount rate | Higher estimated cash flows and lower discount rate, results in higher fair value |
| Equity participations | 10,359 | - | 3 | Adjusted NAV Basis | Discount for lack of marketability | Lower discount rate, results in higher fair value |
| Financial assets at FVOCI: | | | | | | |
| Debt instruments | 427 | - | 3 | Discounted cash flows | Cash flow estimate and discount rate | Higher estimated cash flows and lower discount rate, results in higher fair value |
| Derivative: | | | | | | |
| Forward foreign currency contracts held for trading | (64) | 17 | 2 | Foreign exchange rate | N/A | N/A |
| Available for sale investments: | | | | | | |
| Quoted securities | - | 4,362 | 1 | Quoted bid prices | N/A | N/A |
| Unquoted securities | - | 1,305 | 3 | Discounted cash flows | Cash flow estimate and discount rate | Higher estimated cash flows and lower discount rate, results in higher fair value |
| Managed funds | - | 25,129 | 2 | NAV Basis | N/A | N/A |
| Debt instruments | - | 5,412 | 3 | Discounted cash flows | Cash flow estimate and discount rate | Higher estimated cash flows and lower discount rate, results in higher fair value |
| Equity participation | - | 13,634 | 3 | Adjusted NAV Basis | Discount for lack of marketability | Lower discount rate, results in higher fair value |

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

Notes to the consolidated financial statements (continued)

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

Level 3 fair value measurements

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

| | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD'000 |
|--|---------------------------|---------------------------|
| Opening balance | 20,351 | 6,975 |
| Transfer from level 2 to level 3 | - | 13,634 |
| Reclassification on adoption of IFRS 9 | (4,973) | - |
| Net disposal/redemption | (2,551) | (116) |
| Net change in fair value | (287) | (142) |
| Closing balance | 12,540 | 20,351 |

38 Operational risk

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

39 Capital management objectives

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

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

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

The capital structure of the Group consists of the following:

| | 31 Dec. 2018 KD'000 | 31 Dec. 2017 KD'000 |
|----------------------------------|---------------------------|---------------------------|
| Bank borrowings and bonds issued | 47,565 | 42,516 |
| Less: Cash and cash equivalents | (7,235) | (8,226) |
| Net debt | 40,330 | 34,290 |
| Total equity | 114,052 | 113,282 |

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

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

| | 31 Dec. 2018 % | 31 Dec. 2017 % |
|--------------------------|----------------------|----------------------|
| Net debt to equity ratio | 35.4 | 30.3 |