



شركة الاستثمارات الوطنية
NATIONAL INVESTMENTS COMPANY



عاماً من الإنجازات
Years of **Achievements**

Annual Report
2017

Outstanding Achievements ... Bright Future

Through the transparent, direct language of numbers, three decades of accomplishments speak clearly about themselves, painting the vivid picture of a bright future.

Today, we confidently stand on solid ground, looking forward to the next opportunities, confident in our leadership and believing in our abilities to remain a leader in creativity, growth & patriotism.

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**His Highness Sheikh Nawaf
Al-Ahmad Al-Jaber Al-Sabah**
Crown Prince



**His Highness Sheikh Sabah
Al-Ahmad Al-Jaber Al-Sabah**
Amir of the State of Kuwait



**His Highness Sheikh Jaber
Al-Mubarak Al-Hamad Al-Sabah**
Prime Minister

2017 Performance Indicators

Net profit for the year
'000

KD 10,307

Management & Advisory Fees
'000

KD 3,096

Fiduciary Accounts
'000

KD 1,022,042

Total Assets '000	Total Equity (attributable to equity holders of parent company) '000	Book Value per Share Fils
KD 193,595	KD 173,912	215 fils

Board of Directors

Hamad Ahmad Al-Ameeri
Chairman

Mohannad Mohammad Al Kharafi
Vice Chairman

Mohammad Nizar Al Nusif
Board Member

Khaled Waleed Al Falah
Board Member

Ahmed Ali Sami
Board Member

Ahmad Jassim Al Kharafi
Board Member

Executive Management

Fahad Abdulrahman Al Mukhaizim
Chief Executive Officer

Mohammad Mejbel AlGhraibah
Executive Vice President
Treasury & International Securities Sector

Ahmad AbdulQader Mohammad
Executive Vice President
Support Services Sector

Abdul Mohsen Qarooni
Executive Vice President
IT & Online Trading Sector

Nourah Sulaiman AlFassam
Executive Vice President
Investments Banking Sector

Hamad S H AlHumidi
Executive Vice President
MENA Securities Sector

Amira AbdulRahman Mohamed
Executive Vice President
Risk Management & Compliance Sector

AbdulRahman Mohamed Al Malki
Executive Vice President
Wealth Management Sector

Reyad Metwalli Abdel Aziz
Senior Vice President
Legal Sector

Mohammad T M A AlNouri
Senior Vice President
Real Estate Investments Sector

Board of Directors' Report for the Year 2017

Dear Shareholders,

On behalf of all members of the Board of Directors, the Executive Management and all the employees of National Investments Company, I am pleased to welcome you and to present to you the main economic events and the performance of the Company during 2017, as well as the key financial highlights for year ended 31.12.2017.

Dear Shareholders,

During 2017, the signs of the global economy seemed positive following the ongoing recovery in the US and Europe, the appearance of positive signs in Japan and emerging markets and the solidity of the Chinese economy. 2017 may be seen as a period of contrasting disparities, as this year witnessed the growth of several economics which resulted in accelerating the growth along with the political fragmentation, polarization and tension both domestically and internationally, as economic performance is unlikely to be immune to long-term political and social centrifugal forces, yet so far, markets and economies have largely shrugged off all political unrests, but the risk of a major setback in the near term seems relatively small.

Dear Shareholders,

The economic situation in Kuwait has become distinctive through the adoption by international rating agencies of many Kuwaiti institutions, particularly banks, with a stable and positive rating. The investment climate in general and stock market activity in particular is better than most of the Gulf countries, especially with the improvement of Kuwaiti oil prices during the last period, where the Kuwaiti economy has many important elements to make Boursa Kuwait work effectively, so in general it can be said that all were affected by the global economic crisis, where certain companies succeeded in overcoming the crisis with acceptable losses, while others are still suffering from the repercussions of the crisis and trying to get out of it with minimal losses. It is possible to say that the availability of political and security stability was one of the most important factors that helped the Kuwaiti economy to make Boursa Kuwait work effectively and play its role to the fullest, not to mention the existence of a flexible local legislative and regulatory framework that is capable of adapting well to the variables, which has helped to create an atmosphere of trust among investors, as well as the existence of many banking institutions that have proved successful in creating effective channels in the process of increasing deposits and provide credit and its role in funding the economic activity in general, and of course the existence of the Capital Markets Authority (CMA) was one of the most important factors that helped with a remarkable success to regulate the



Solid **Foundations**

The company was established on solid foundations reinforced by uncompromised work values.

activity of securities professionally and to ensure compliance with the laws and regulations relevant to securities activity. Moreover, the Central Bank of Kuwait (CBK) succeeded in promoting the economic activity through its role in the process of monetary stability and creating the appropriate banking environment of a national economy capable of growing well.

Dear Shareholders,

Return of confidence to the local market is the most appropriate description of 2017, as Boursa Kuwait was ranked first in the Gulf market in terms of performance during 2017, with its price index increased by 11.5% and weighted index by 5.6%. The Boursa took a lot of important steps which helped to upgrade the market to reach the world by joining the FTSE indices, in addition to the new market segmentation system expected to be implemented in 2018. These steps are in the right direction because they increase transparency, which will contribute to attract foreign investors. On the regional level, it is clear that the outbreak of the Qatari crisis with four Arab countries at the beginning of June 2017 was a strong shock to the Gulf society, which reflected negatively on the performance of regional bourses.

Dear Shareholders,

Kuwait's oil prices fluctuated during 2017 after a number of ups

and downs changes took place on a number of factors, varying between economic and political, and 2017 could be highlighted as a milestone in the price of oil during the past three years. The Kuwaiti oil barrel has managed to record a qualitative leap through a rise of more than USD 11 since the beginning of 2017. The Kuwaiti oil barrel started trading in 2017 at USD 51.8, while at the yearend it recorded USD 63.5, reflecting a significant recovery for prices through the OPEC's agreement which succeeded in breaking the sharp decline that began in mid-2014, and similar to the rise in Kuwaiti oil prices, global oil prices have improved significantly during 2017.

Dear Shareholders,

Year 2017 is one of the best years for global markets in the past decade. The global equities, as measured by the MSCI All-Country World Index, were up 22.15%, its strongest gain since 2013. What makes year 2017 somewhat unique though, is that virtually every equity market was particularly strong, and even the fixed income asset classes generally outperformed expectations. The only negative asset class was the commodities, although they have rallied in the 2nd half as crude oil has rebounded off its lows. In many ways, the performance of 2017 has been similar to that in 2016, except it's been even stronger for equities.

While many expected to be more turbulence in 2017 due to

President Trump's policies, the European elections, or conflict with North Korea and the Middle East, the market has largely shrugged off all news and instead has driven higher on the premise of strong corporate earnings and hope for tax reform. What has also been extraordinary is that the S&P 500 Total Return Index is on pace to post positive monthly returns in every month of 2017, which has never happened in previous years history of the index.

As for expectations for 2018, given the exceptional results for global markets in 2017, we believe that there will be a correction at some point, which given the string of unprecedented positive gains we have been experiencing, where so far none of these corrections catalysts appears. The possibilities include a mistake in the monetary policy by the new Federal Chairman Jerome Powell, evidence of a slowdown overseas most notably China, or any number of black-swan like events surrounding geopolitics. However, aside from an overdue correction, we still believe that the underlying economic fundamentals remain in place for continuing global growth, and therefore equity markets could continue to climb well into 2018. Looking at "Real" (inflation-adjusted) Gross Domestic Product (GDP) year-over-year growth, we observe that the 10 largest economies in the world are all growing at a steady or increasing rate. In addition, unemployment remains low and is showing improvement, and outside of the Fed, the other large central banks are likely to

remain accommodative through most of current year.

Dear Shareholders,

The Investments Banking Sector is primarily responsible for the alternative investments of the company in the local and international markets where it aims to achieve the highest returns through diversified investments taking into account the increase in the value of assets and income. The sector has also maintained a steady flow of advisory services revenues along with new and diversified investments, maximizing the use of available financial resources and maximizing return on investment to NIC shareholders.

The Investments Banking Sector recorded an exceptional profit, mainly due to profits from the sale of available for sale investments, dividends and profits from associates and subsidiaries, as well as financial advisory services, as the sector has successfully exited five local and international investments.

The sector has maintained its regular revenues through its financial advisory services and services to its clients in various banking activities such as managing the acquisition of listed companies in Boursa Kuwait with total transactions amount of KD 306.67 million during 2017, the most prominent of these was the historic collection of Kuwait Food Company (Americana)

shares by Adeptio AD Investments SPC Limited of total shares 375,567,721 representing 93.42% of Americana shares.

On a related investment level, the Investments Banking Sector used the available liquidity to enter into international companies specializing in diversified investments in the financial, real estate, energy and transportation sectors as well as investing in the educational sector.

Dear Shareholders,

2017 is characterized by the return of confidence to the local market, as this state has been boosted after Boursa Kuwait turned a new chapter in the Emerging Markets list to be upgraded within the secondary emerging markets of the Financial Times Stock Exchange (FTSE) Russell Index at the end of September 2017. A reference is made to this point at the introduction due to the importance of this achievement on Kuwait economic level in general and the Boursa Kuwait in particular.

As for the performance of the Boursa Kuwait in 2017, it was more active compared to the performance of 2016, as we witnessed an increase in the average daily trading value of 99.7%, which reached KD 23.0 million compared to KD 11.5 million for the previous year. At the beginning of the year, the market indices witnessed a series of gains, then the market weighted indices

(the most accurate indices in describing the market activity) witnessed a wave of fluctuating performance in a horizontal trend breaking downwards to reflect a relative correction movement, amid modest trading values that came after the traders had been affected by several time factors, including in particular of the season summer vacation and accompanying decline in investors activity. As for the technical factors, we have witnessed various technical developments in terms of trading mechanisms and the settlement and clearing cycle (T+3) in the new post-trading model (PTM), which was met by caution and anticipation from certain investment circles. As for the market positive performance during the third quarter due to the buying momentum of some operating shares, banks and companies that have high level of liquidity, it is important to mention upgrading of Boursa Kuwait within the emerging markets according to the FTSE index, which was the main driver behind the recovery of the market in general and leading stocks in particular. Following the market upgrade, more domestic capital contributions are expected to enter the market over the medium term as well as the announcement of the new phase in the settlement of foreign investment in the long term at the very least, which is expected to be around USD 750 million. Such shift which the economic community has been waiting for a long time is a proof of the success of regulators and the Boursa Kuwait in adopting a purposeful strategy in developing Boursa Kuwait in accordance with the international standards.



A Clear **Vision**

Our clear future vision led the company to become listed in the stock market.

The performance of the market during the last quarter was weak, as the Bursa performance turned down due to the influence of regional geopolitical tensions after the market had witnessed a random sell-off during the period, leading to a state of pessimistic dominated the psychology of trader in the market. We see that the market has entered into a normal due correction stage when looking at the annual performance of the weighted indices on 17 September 2017, which exceeded 17%, so we usually see movements of correction and adjustment in stock prices in the financial markets after a wave of rises as a result of investors' turning to profit-taking waves, and perhaps another factors represented in the type of investors and their sizes contributed to the decline of the market activity, as the individuals segment is considered one of the biggest segments contributing to the market liquidity and this type of investors usually prefer to exit from the stock markets in cases of crisis and political developments and exaggeratedly stick to caution and anticipation. So we can say that technical factors and the negative geopolitical environment met at the same time (last quarter) to negatively affect the investment operations in the Bursa Kuwait.

Casting light on the major events and economic changes is crucial in reading the local economic situation and its impact on the performance of the market. First by considering the movement of the prices of crude oil markets and their economic impacts, as the Kuwaiti economy primarily depends on oil's revenue.

The continuous cooperation among the OPEC and non-OPEC members during 2017 led to slowing up production on oil aimed at reducing the abundance of the world crude oil supply, and the recovery of the performance of the world economy in improving demand rates which contributed to the oil market equilibrium and correction of oil prices downward movement which started in mid-2014 leading the Kuwaiti oil price reach USD 63.5 per barrel (pb) at the end of December 2017. Based on the previous facts, the average price per barrel was USD 44.7 for the previous fiscal year 2016/2017 and the general budget recorded an actual deficit of KD 4.6 billion. A further improvement in revenues is expected for the fiscal year 2017/2018 (Kuwaiti oil price average of USD 51.6 over 12 months), leading to an expectation of a reduction in the budget deficit from KD. 3.5 - 4.0 billion. As a result of this deficit, the Kuwaiti government tapped foreign debt markets in March 2017 through bond issuance of USD 8 billion at a competitive price to finance its budget's deficit. Moreover, a 5% reduction in oil production, which reflects Kuwait's commitment to OPEC's agreement to reduce oil production, will lead to a contraction of the GDP of 2017 by 2.5% due to the decline in revenue of oil exports in general. As a result of these Challenges to the national economy, early 2017, the government set up a new vision 2035 through which it seeks to achieve five strategic objectives to achieve a sustainable economy based on numerous short- and long-term development programs, as well as the positive returns from economic diversification plans in the non-oil sector in light

of the State's focus on increasing capital expenditures in various sectors of the economy. However, what is noted is that the government is slowing down in the implementation of economic reform programs, especially in light of popular opposition to undertake economic reforms. On the other hand, it is essential to refer to CBK's success in keeping the discount rate at (2.5% - 2.75%) in support of the recovery of economic growth rates of the non-oil economic sectors and to maintain the competitiveness and attractiveness of the Kuwaiti dinar for domestic savings in a relatively difficult equation, especially in view of the modest rates of growth of local bank credit, which is counted for CBK in its flexible monetary policies and how they deal with changes in the global currency markets for their expansionary and deflationary policies.

We believe that year 2018 is a continuation of the challenges imposed by the emerging political and economic situations. The geopolitical developments and the blurring of the regional political scene pose a challenge to economic growth and the extent of holding up of the OPEC's agreement in 2018 constitute another challenge from another standpoint. The first pillar is a key factor in the process of creating the suitable investment climate to increase capital projects, expand the activity of non-oil sectors and attract foreign capitals, meanwhile the other pillar is an essential factor in the stability of international oil prices, which is directly related to the financial structure of the State and

its ability to implement its development plans over the long run. In light of these challenges and the obstacles imposed by rapid changes, the fruitful cooperation between the government and the National Assembly remains the safety valve in overcoming the crises in the regional arena, along with restructuring the national economy according to a growth model led by the principle of partnership between the public and private sectors, which was confirmed by the Amiri Speech at the inauguration of the second regular session of the 15th legislative term of the National Assembly, referring to these challenges and the importance of working to achieve Kuwait's security and preserve national unity, along with the importance of comprehensive sustainable development through the reform of our national economy which suffers structural imbalances, mostly dependence on a single depleted natural resource; which is oil. The economic reform is no longer an optional choice, yet it became an urgent necessity that ensure sustainability to build a new and promising future for our beloved country Kuwait.

Despite the declines in all major GCC markets during 2017, the local market fluctuation, specifically in the last quarter and the volatility witnessed as above mentioned, we at NIC have been able to maintain superior performance of our investment funds, outperformed the applicable benchmark indices. Since the beginning of 2017 till the closing of trading of December, Al Wataniya Investment Fund, which invests in equities of

companies listed on the Boursa Kuwait, achieved a return of 9.3% exceeding the weighted average return of 5.6%. Al Wataniya is one of the biggest investment funds in terms of the net asset value in Kuwait. Al Mada Investment Fund, which invests in Shari'ah compliant local and GCC listed equities, also achieved a return of 1.6% during 2017 which is higher than the return of its benchmark index of -3.9%. Also, Al Darij Investment Fund which invests primarily in listed and unlisted Sharia-compliant equities in Kuwait and the GCC achieved a return of 2.03% which is higher than its benchmark index of 0.3%, while the performance of the Shari'ah compliant Zajil Services and Telecommunications Fund and Mawarid Industrial and Petroleum Services Fund was negative in line with their benchmark indices which have been significantly affected by the performance of the GCC markets. Undoubtedly, that this is a praise to the company's efforts during the past year in facing the market challenges in light of the difficult conditions witnessed locally and internationally, as the company has adopted a strategy based on the acquisition of earning assets, and keeping an eye on the opportunities in the GCC markets, which contributed to improve performance and avoid major losses in the value of assets of all funds it manages.

Dear Shareholders,

During 2017, Wealth Management Sector focused on building the potentials of the sector. One of the most important challenges

of the year is to continue to align the positions of customers' portfolios and funds units holders in line with the requirements of the Capital Markets Authority and its Bylaws. It made great efforts in the process of compiling and updating customers' data and documentation. Also, The Wealth Management Sector played a key role in the implementation of a new automated computer system in the service of customers and their portfolios where the company be able to issue periodic reports of a high degree of transparency and accuracy and includes all CMA requirements regarding the content of the report.

With regard to Corporate Social Responsibility, the Company has paid particular attention to this aspect by participating in community activities aimed at providing career guidance to university students in Kuwait who have expressed interest in future careers in the business and finance sector.

During the year 2017, Wealth Management Sector played a pivotal role in the mandatory acquisition to complete the sale of Americana shares to Adeptio AD Investments SPC Limited, in addition to Zain deal sold by one of our clients to Omantel Communications Company, which was one of the most important transactions in Boursa Kuwait in general and the telecommunications sector in particular, and on the basis of this success the confidence of customers in the capabilities of the company and its working staff boosted as it was an objective for the selection of NIC as



A Trustworthy **Leadership**

A wise leadership that earned the trust of an elite group of shareholders.

the manager for the auctions and acquisitions, including but not limited to the mandatory acquisition of the Educational Holding Group shares by Boubyan Petrochemical Company, in addition to other sale transactions through the auctions on shares of a number of listed companies.

Dear Shareholders,

On the level of Real Estate Investments Sector, the private housing sector was characterized by its obvious stability after the first quarter of 2017, which was evident in the volume of trading in the real estate sector by 28% compared to 2016, which is not clear in terms of volume of trading, which has the most impact on the increase of the volume of trading for different sectors by 11% despite the clear decline in the volume of trading in the investment and commercial sectors by 18.3% respectively compared to 2016.

In terms of prices, year 2017 witnessed a limited reduction in the investment property by rate ranging from 2 to 3%, while the commercial property remained stable compared to 2016.

The Real Estate Investments Sector recorded a remarkable growth in revenues for the past year by 16.6% compared to 2016, although no new properties were purchased due to the real estate market conditions in Kuwait. However, two properties were sold in Ras Al

Khaimah, United Arab Emirates attaining a profit of 29%.

In 2017, Al Khaleejia Square Project was completed which features became clear in a short period of time. The revenues of Al Khaleejia Complex for the past year increased by 3% compared to 2016 despite the eviction of some tenants for improvement and development in the complex to achieve positive desired results over the next two years, while the sector continued to provide pioneering services in the field of managing and expanding the property of third parties, which has had a clear impact on the growth of revenues of third-party property management fees in the past year by 13% compared to 2016.

Dear Shareholders,

The IT and Online Trading Sector is the primary responsible for the establishment, monitoring and maintenance of all information systems, applications and services in the company. The most important achievements of the sector during 2017 is the successful completion of the new system of Wealth and Fund Management Sector. It is a comprehensive and flexible system created to meet the company's growing needs to manage customer service, portfolio management, investment fund management, reporting, performance assessment, risk analysis and compliance.

Among the most important achievements of the sector during

2017 is the replacement of the Investor's Pocket Guide with the implementation of the IPG system on the company's website, and the completion of the development of the mobile application in coordination with the concerned departments that serve as a personal pocket guide for the investor in Boursa Kuwait, in addition to the advanced technical application on NIC website.

The disaster recovery program can be highlighted in line with CMA guidelines, which was completed during the past year to ensure that the electronic service is not interrupted for its employees and customers.

With regard to the Company's Online Trading system (NICe360), the system succeeded in completing joining the transition to the IPTM1 post-trading model, which was established and set up by Boursa Kuwait, Kuwait Clearing Company and Capital Markets Authority, which was accordingly called as the Market Readiness Team. The Company's IT and E-trading teams have conducted many of the extensive market tests that have been performed in the past and are still being done by the Market Readiness Team.

Dear Shareholders,

The basis of Risk Management is to plan, manage and systematize the organization's activities in order to reduce the various types of risks that adversely affect the organization in terms of profitability,

reputation and capital. The Company has designed an integrated risk management framework that includes all potential risks such as market, liquidity, operations risks as well as financial, strategic and administrative risks, etc.

The Risk Management approach is supported by a range of controls. The adopted policy defines each form of risk and how it is assessed, monitored and minimized. The management of these functions are carried out by the Board Risk Management Committee (BRMC) which is entrusted by these powers.

The Company's Risk Management team uses the state-of-the-art analytical methods to measure and reduce risk types such as Stress-testing, VAR modeling, Risk control self-assessment, Scenario analysis and other analysis methods. The Board of Directors supports these functions and ensures their application at the company level as a whole.

Regulatory compliance is an essential part of a Company's success. Failure to implement the laws and regulations will result in paying fines by the Company, cause it financial loss and will have a negative impact on the Company's reputation as a whole and its long-term achievements. For this reason, the Company has developed an integrated framework of regulatory compliance and internal regulations for all activities of the Company, along with continuous follow-up by the Compliance Department to confirm

the work in accordance with the latest laws and instructions issued in this regard.

Compliance Department also monitors Anti-Money Laundering (AML), the financing of terrorism, the application of corporate governance regulations and all internal control systems, as well as supervising and monitoring the work of the internal auditor.

The Company gives highest priority to its shareholders' rights and discloses the material information on an ongoing basis either on the Company's official website or on the Boursa website to provide an access to this information to the shareholders and stakeholders, in addition to the financial statements and the Company's most important developments. This information is provided on the Company's official website or through the Investor Affairs Unit.

With regard to the Anti-Money Laundering (AML) and the financing of terrorism, the Company adheres to Law No. 106 of 2013 and its executive regulations as well as Law No. 7 of 2010 and its executive regulations. The company has run specialized courses for the Board of Directors members and Executive Management members during 2017 to enrich their information in this regard and inform them of the most important developments.

The Company follows up any developments related to Anti-Money

Laundering and continuously trains its employees to be fully aware of these instructions as well as training them on the latest methods of due diligence to be applied and to assess the risks of customers and suspicious operations. Note that a new system has been recently activated for this purpose CRM System.

Summary of Corporate Governance Report

Introduction

The report was prepared in accordance with clause (9) of Article 3-7 of the Rule II of the Module Fifteen "Corporate Governance" of the Bylaws of Law No. 7 of 2010 regarding the Establishment of the Capital Markets Authority and Regulating Securities Activities, in order to read it to NIC shareholders in the annual general assembly, which includes the measures taken by the Company in order to complete the rules of corporate governance and the extent of compliance thereof.

Rule I: Construct a Balanced Board Composition

1. Summary of the Board of Directors

The Company's Board of Directors consists of six members, including five non-executive members and an independent member. Their qualifications varies in several areas as will be explained below:



Outstanding **Performance**

Awards received from Regional & International Institutions in recognition of our outstanding performance.

The name	Designation (Executive / Non-executive / Independent)	Qualification and practical experience	Date of election
Mr. Hamad Ahmad Hamad Al-Ameeri	Chairman (Non-executive)	Bachelor of Accounting, 33 years experience.	28/05/2015
Mr. Muhannad Mohammad Abdul Mohsen Al-Kharafi	Vice Chairman (Non-executive)	Bachelor of Economics, 27 years experience	28/05/2015
Mr. Mohammad Nizar Ahmad Al-Nusif	Board Member (Independent & Non-executive)	Bachelor of Public Administration and Political Science - Faculty of Commerce, 15 years experience	28/05/2015
Mr. Khalid Waleed Al-Falah	Board Member (Non-executive)	Bachelor of Administrative Sciences, 12 years experience	28/05/2015
The late Mr. Hamad Abdul Latif Abdullah Al-Asfour	Board Member (Non-executive) (resigned on 08/08/2017)	Bachelor of Business Administration, 16 years experience	28/05/2015
Ahmed Ali Samy	Board Member (Non-executive)	Bachelor of Commerce, 40 years experience	21/11/2017
Ahmad Jassim Mohammad Al-Kharafi	Board Member (Non-executive)	Bachelor of Accounting, 8 years experience	28/05/2015
Ahmad AbdulQader Mohammad	Board Secretary	Bachelor of Science - Economics, over 30 years experience	22/11/2011

2. Summary of the Board of Directors meetings in 2017

The Board of Directors held nine meetings during 2017, exceeding the number required under the Companies Law and the Corporate Governance Rules issued by the Capital Markets Authority. The Board enjoys a high attendance and active participation of Board members as detailed below:

Member Name	Meeting No. 1/2017 held on 9/4/2017	Meeting No. 2/2017 held on 16/4/2017	Meeting No. 3/2017 held on 7/5/2017	Meeting No. 4/2017 held on 14/5/2017	Meeting No. 5/2017 held on 23/7/2017	Meeting No. 6/2017 held on 9/8/2017	Meeting No. 7/2017 held on 17/10/2017	Meeting No. 8/2017 held on 1/11/2017	Meeting No. 9/2017 held on 12/12/2017	Number of meetings
Hamad Ahmad Hamad Al-Ameeri Chairman	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Muhannad Mohammad Abdul Mohsen Al-Kharafi Vice-Chairman	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Mohammad Nizar Ahmad Al-Nusif Board Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Khalid Waleed Al-Falah Board Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
The late Mr. Hamad Abdul Latif Abdullah Al-Asfour Board Member	✓	✓	✓	✓	✓	Resigned on 8/8/2017	-	-	-	5
Ahmad Jassim Mohammad Al-Kharafi Board Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Ahmed Ali Samy - Board Member Elected in GA dated 21/11/2017 to replace of the resigned member	Was not member yet	Was not member yet	Was not member yet	Was not member yet	Was not member yet	Was not member yet	Was not member yet	Was not member yet	✓	1
Ahmad AbdulQader Mohammad Secretary of BOD	✓	✓	✓	✓	✓	x annual Leave	✓	✓	✓	8

3. Summary of how to apply the requirements of registration, coordination and keeping minutes of meetings of the Board of Directors of the Company:

- Files shall be prepared to the BOD members including all the details on the agenda.
- These files are usually sent one week before the date of the Board of Directors meeting, after coordination with the Board members on the date of the Board and the time of its convening so that the proposed date and time are suitable for all members.
- Concerned departments shall be communicated by the Board's Secretary of the relevant Board of Directors decisions.
- Minutes of meetings are available for review and reference if requested by the members at any time, and the original minutes are kept in a closed locker under the supervision of the Secretary of BOD and the Director of the Chairman Office.

4. Board of Directors Highlights in 2017:

1. Discussing the Company's financial statements during the required periodic periods and approving them.
2. Approval of the 2017 Annual Plan.
3. Approval of the 2016 corporate governance report draft which was presented to the Company's ordinary general assembly meeting during 2017.

4. Approval of the audit plan for 2017.
5. Approval of renewal of credit lines granted by banks and financial institutions.
6. Approval of classification of assets under IFRS 9 and its impact on the Company's financial position.
7. Approve the proposed amendments to the Company's organizational structure.
8. Review the periodic reports on budget versus the actual results.
9. Review the periodic reports submitted by the Compliance Officer on Anti-Money Laundering.
10. Review the periodic reports on cases filed by or against the Company before courts.

Rule II: Establish Appropriate Roles and Responsibilities

1. Define the policy of the Roles and Responsibilities of the BOD members and the Executive Management

- This policy is developed in a detailed and accurate manner to define the roles, responsibilities and financial and administrative powers. Then it is approved by the Board of Directors and applied to all departments of the Company, as well as the signatures of the authorized signatories on behalf of the Company each in accordance with their position.
- These responsibilities and authorities are reviewed at

a minimum annually to make any changes according to business requirements.

- As for the Executive Management, there is approved job descriptions for executive management members. The organizational structure reflects the identification of roles and responsibilities and applies of the principle of segregation of duties.

2. Forming Board Committees in accordance with the rules of governance and ensuring their effectiveness and independence.

I. Investment Committee (IC):

- The committee held two meetings in 2017, based on an amendment to its regulations to hold two meetings a year instead of four meetings. The committee was briefed on several investment opportunities related to the purchase of real estate inside Kuwait, as well as investment opportunities related to direct investment in local companies.

II. Audit Committee (AC):

- The committee held five meetings in 2017. The committee reviewed the reports submitted by the internal auditor regarding his remarks on the Company's departments.

It also, reviewed the periodic financial statements of the company, as well as the agreements to be signed with the internal auditor and the external auditors of the Company. The committee held periodic meetings with the external auditor in respect of the Company's financial statements and the latest developments and requirements in accordance with IFRS. The Committee also reviewed the report on the adequacy of internal control systems and approved the same.

III. Risk Management Committee (RMC):

- The Committee held four meetings in 2017. The Committee reviewed the report on the performance of the operating departments, as well as discussing the ratios of concentration of investment risks. The Committee also reviewed the report on direct investments and issued its recommendations in this regard. The Committee also reviewed the report on the Company's risk profile, the Risk Control Self-Assessment report. It also, approved the semi-annual report to be submitted to the Capital Markets Authority.

IV. Nominations and Remuneration Committee (NRC):

- The committee held two meetings in 2017, where it reviewed the KPIs of the executive management, and reviewed the



1.8

Strong **Assets**

1.8 Billion Dinars of investments & exits around the world
were cleverly & wisely managed.

performance report of the Board of Directors for 2016. In addition, it approved the job description of the Board of Directors members.

Rule III: Select Highly Qualified Candidates for the Members of Board of Directors and the Executive Management

- The members of the Board of Directors and Executive Management have the competence, experience and qualification required to perform their functions. Board members enjoy a variety of expertise including the economic expertise and experience in the investment, finance, IT and real estate sectors, which adds to the effectiveness and diversity of the work of the Board of Directors.
- The Chief Executive Officer has over 20 years of experience in the field of investment and asset management, as well as serving as a member of the Board of Directors of prestigious investment and real estate companies and others. He holds a Bachelor of Accounting from Kuwait University and the master of business administration from the University of Cleveland - Ohio.
- The Nomination and Remuneration Committee evaluates the members of the Board of Directors and the Executive Management in accordance with the established KPIs to ensure fairness and to clarify areas of weakness, as well as to

encourage everyone to play their role to the fullest.

Rule IV: Safeguard the Integrity of Financial Reporting

1. The Role of the Board of Directors and Chief Executive Officer

- Approval of the annual projected budgets and approval of the interim and annual financial statements fall within the responsibilities of the Board of Directors as stated in the approved board charter. The annual report presented by the Company's BOD includes the integrity of all financial statements as well as reports related to the Company's activities.
- The Executive Management, represented by the Chief Executive Officer, shall provide the Board of Directors with a written undertaking that the Company financial reports are provided soundly and fairly, they present all financial aspects of the Company, including data and operational results, and they are prepared in accordance with the approved International Accounting Standards.

2. Role of the Audit Committee

- Technical supervision of the functions of the internal auditor in order to verify its effectiveness in carrying out the assigned tasks.
- Review periodical financial statements prior to their

submission to the Board of Directors and provide such Board with opinion and recommendation concerning them, in order to ensure fairness and transparency of financial statements.

- Provide the Board of Directors with its recommendations concerning the appointment, re-appointment, or replacement of the external Auditors, and specify the remunerations thereof. Upon recommendation of appointment, it is considered to verify independence of such external auditors and review letters of their appointment.
- Recommend the appointment of an external entity to carry out the internal audit functions.

Rule V: Apply Sound Systems of Risk Management and Internal Audit

1. Risk management Systems

The Company is keen to observe compliance with risk management systems and has taken several steps to ensure the effectiveness and independence of risk management function as follows:

a. Risk Management Department

The company has an independent risk management department composed of a number of qualified employees

with experience in this field and registered in accordance with the rules of competence and integrity issued by the Capital Markets Authority.

- This department reports directly to the Board of Directors in order to ensure its independence. It submits its reports to the Risk Committee and the Board of Directors directly without any interference from the Executive Management to ensure transparency.
- The organizational structure of the Department reflects the various functions clearly and the separation of duties and responsibilities. It also, reflects the independence of department from the executive body.

b. Risk Management Committee

The Risk Management Committee was formed of three Board members headed by a non-executive independent member in accordance with CMA instructions. RMC carries out the following roles and responsibilities:

- Prepare and review risk management strategies and policies prior to getting them approved by the board of directors and verify application of such strategies and policies and that they are appropriate to the company's nature and level of activities.
- Ensure provision of resources and systems sufficient for Risk Management.

- Evaluate systems and mechanisms of identifying, measuring and monitoring various types of risks that may face the company, in order to identify areas of weakness.
- Assist the Board of Directors to identify and evaluate the company's acceptable risk level, and ensure that the company does not exceed such level after its approval by the Board of Directors.
- Review the organizational structure of Risk Management and provide recommendations in this regards prior to its approval by the Board of Directors.
- Verify independence of the Risk Management employees from activities that result in subjecting the company to risks, and verify that the Risk Management employees fully understand the risks surrounding the company and raise awareness of employees concerning risk culture.
- Prepare periodical reports concerning the nature of risks facing the company and submitting such reports to the company's Board of Directors.
- Review issues raised by the audit committee, which may affect risk management in the company.

2. Internal Control Systems

a. Board of Directors Role

- The Board of Directors of the National Investments

Company shall periodically check the effectiveness and adequacy of the Company's in place internal control systems, including, but not limited to, the following:

- Ensure validity of financial and accounting systems including those relate to financial reporting preparation.
- Procure the application of sound audit rules for risk measuring and management, through determining scope of risks that may face the Company and constructing appropriate environment of risk prevention culture all over the company and presenting the same transparently with stakeholders and related parties.

b. Measures taken to ensure the sufficiency of internal control systems:

- Proper assignment of duties and responsibilities
 - Update the organizational structure and get it approved by the Board of Directors.
 - Prepare a job description for all employees of the Company.
 - Update the Authority Matrix to determine the level of financial powers granted to the Board of Directors and the Executive Management.
- Clear segregation of duties and non-conflict of interests
 - Prepare a corporate governance framework, approved by the Board of Directors, which includes procedures

to be followed to avoid all unsound practices that may lead to conflicts of interest and expose the Company to any financial or regulatory problems.

- A specific policy for dealing with suppliers has been developed to reduce any conflicts of interest that may arise through dealing with suppliers.

- Dual Check and Control (Maker-Checker)

- Update all policies and procedures for each of the company's departments in order to comply with the CMA Bylaws, taking into account the complete separation between the activities carried out by the company in order to ensure no leak of information between these activities.
- The National Investments Company has in place a set of procedures that ensure the policy of dual signature on all transactions of the Company as follows:
 - Authority Matrix approved by the Board of Directors.
 - Signatures booklet for the Company authorized signatories.

c. A brief statement on the application of the requirements of forming an independent internal audit department / office / unit

- In compliance article 7-6 of Rule V of Module Fifteen

of CMA Bylaws, the Company has assigned a third party (KPMG) to independently assess and review the internal operating systems of the Company in addition to identifying and analyzing operational risks in the company in accordance with professional rules and standards of internal auditing, and to submit recommendations and reports to the senior management and the Audit Committee, as well as assigning an employee in the Company as a registered internal audit officer to coordinate and follow up with the external entity commissioned with the internal audit function, and to follow-up the reports sent to all departments of the company and decide on their compliance with the recommendations of the internal audit office.

- The Audit Committee formed by the Board of Directors is entrusted with the technical supervision and evaluation of the performance of internal audit in the Company.

Rule VI: Promote Code of Conduct and Ethical Standards

Business Charter - The Company has in place a business charter in accordance with the code of conduct and ethical standards. It is called "Employee's Manual" and is adhered to by everyone in the Company. It includes many instructions pursuant to the accepted standards.



Continuous **Growth**

A 359% growth in profit was achieved through the past years.

Code of Conduct - The Company has in place a complete manual of corporate governance that includes the basic rules of professional conduct, as adhering to the spirit of the law and the internal policies and procedures of the company and to attain the interest of the shareholders, the Company and all stakeholders as well as the public.

Reducing of Conflicts of Interest - The internal control systems applied in the Company follow up any cases of conflict of interests, as the Company has prepared a specific policy for conflicts of interest and how to reduce them.

Rule VII: Ensure Timely and High Quality Disclosure and Transparency

1. Disclosure to other parties

- The company applies several mechanisms for disclosure and is keen to observe the rules of disclosure and transparency stipulated in CMA Bylaws. The applied mechanisms can be summarized as follows:
 - The existence of a policy and procedures manual on all disclosures required to regulatory bodies, which the company updated in 2017 to comply with all applicable procedures in this regard.
 - The existence of an electronic system to calculate the ratios of changes that require disclosure.

- Publish all disclosures of material information on the Company's official website in Arabic and English in the interest of transparency of shareholders and investors.
- Maintain a special record for the disclosures of the Board of Directors and Executive Management.
- Disclosure of shareholders' records on an annual basis in accordance with approved disclosure channels.

2. Investors Affairs Unit: The Investors Affairs Unit consists of several members representing the concerned departments in this concern. The role of this unit can be summarized as follows:

- The Investor Affairs Unit enjoys the appropriate independence through reporting directly to the Company Chairman, in a manner that enables it to provide timely and accurate data, information and reports through the familiar means of disclosure, including the Company's website.
- The Investor Affairs Unit is responsible for creating effective communication between it and current and potential shareholders and investors, aiming to provide information services related to their investments and access to information. This will enhance the ability to boost the Company and provide a clear vision to encourage its current or potential shareholders to evaluate it properly and accurately.

3. **Information Technology (IT):** In 2017, the Company implemented the electronic system for managing portfolios and investment funds, and customer service, as well as the disclosure system and AML / CFT system.

Rule VIII: Respect the Rights of Shareholders

The Company observes the rights of its shareholders and endeavors to achieve justice and equality among them and respect the rights of the minority. This include for example:

- The shareholders rights have been defined in accordance with the rules of the Capital Markets Authority in the Corporate Governance Framework approved by the Board of Directors and published on the Company's official website which is applied throughout the Company, its employees and members of its Board of Directors.
 - The Company signed a contract with Kuwait Clearing Company in 2006 for the purpose of maintaining the shareholders registers.
 - The company is keen to make any material disclosures that concern the shareholders on the Boursa Kuwait website and on its official website. The company also publishes the dates of the general assembly meetings and agendas in two national newspapers to encourage shareholders to attend and vote.

Rule IX: Recognize the Roles of Stakeholders

- The Company Corporate Governance Framework approved by the Board of Directors reinforces and ensures the rights of stakeholders. It has established the following principles, for example:
 1. Provide equal rights to stakeholders according to their relationship with the company.
 2. Establish clear procedures to define the rights and duties in the event of failure of one party to comply with its duties.
 3. Establish a legal mechanism to compensate the stakeholders if the rights thereof are breached or violated.
 4. Set a mechanism for establishing good relationship between the Company and different suppliers, customers and other stakeholders, to keep the confidentiality of concluded contracts.
 5. Establish a mechanisms for complaints and monitoring of violations. The Company has in place a whistle blowing policy published on its official website to allow all stakeholders to make reports in case of suspected violations.
 6. Ensure transparency and credibility in the disclosure of all material information that affect shareholders and stakeholders and publish them through various means of publication.

7. Encourage stakeholders to participate in the follow-up of the Company's various activities through the Company's website, which continuously displays all the Company activities, events and material information, as well as through continuous communication with customers through the Customer Service Department and the Investor Affairs Unit.

Rule X: Encourage and Enhance Performance

1. The Company's mechanism for training the Board of Directors and Executive Management

- Based on the Company's keenness to keep the Board of Directors and Executive Management continuously informed of the latest developments in the various fields related to the Company activities, the Company held training courses for the members of the Board of Directors and Executive Management in 2017 to inform them of the latest developments in Anti-Money Laundering and combating financing of terrorism, in addition to a specialized training course for the members of the Board of Directors on the development of the skills of the BOD members.
- The Nomination and Remuneration Committee reviewed and evaluated the KPIs of the Board of Directors and the Executive Management.

2. Brief about the Corporate Value Creation with the Company's employees:

- NIC pays great attention to the Corporate Value Creation with its employees, believing that the promotion of a culture of corporate values is the driving force of the Company and its employees, which expresses its uniqueness and individuality.
- The success of the NIC in achieving its strategic objectives and enhancing the confidence of its investors is one of the pillars of the corporate value creation, through its commitment to comply with laws and regulations of corporate governance.
- NIC recognizes the core values of corporate value creation with its employees, where the company periodically conducts surveys to gauge the satisfaction of its employees and the Company's commitment to its strategic plan.
- NIC follows an approved approach of remuneration and employee recognition through periodic employees' evaluations and KPIs in the evaluation process.
- NIC has in place a training plan aiming to enhance and improve the performance of its employees.
- Employees comply with the Company's approved Code of Conduct, which is part of the Company's corporate governance framework.

Rule XI: Focus on the Importance of Corporate Social Responsibility

- 1. Develop a policy that ensures balance between the Company goals and society goals:** Corporate Social Responsibility is a continuous social activity to understand the needs of the society while working to interact with community events. The Policies and Procedures Manual of the Wealth Management Sector includes a complete section on Corporate Social Responsibility and how to apply it.
- 2. Programs and mechanisms used to help highlight the Company efforts in the field of social work:** The Company is keen to participate on an ongoing basis in the career fairs it organizes, where the last activities of the company in the field of social work was participation in the 19th Career Fair, which was held at the Gulf University of Science and Technology (GUST) in 2017. The Company employees replied to students' inquiries and received graduates CVs to employ the competent ones thereof. The Company also periodically trains a group of fresh graduates to contribute to the rehabilitation of young graduates to quickly integrate them into the labor market.

Dear Shareholders,

Last year witnessed several geopolitical changes and fluctuations that had a direct impact on both domestic and regional financial markets. Therefore, the Board of Directors and the Executive Management are pursuing their prudent policy of reconciliation between expenses and revenues as well as precautionary provisions taken to confront the depreciation of certain assets in accordance with the principle of transparency applied by the Board of Directors, which reflects the strength of the financial position of the Company that has led the company in facing any changes and financials instability. In view of the financial results of the Company, the total assets of the Company is KD 193.595 million against the total shareholders' equity of the parent company, of KD 173.912 million. Noting that the total operating revenues for this year amounted to KD 20.839 million, representing an increase of 96% compared to KD 10.613 million in 2016. The Company achieved net profits of KD 10.307 million for 2017 compared to a net loss of KD 3.978 million in 2016, representing an increase of 359%. The basic and diluted earnings per share of the parent company's shareholders were 12 Fils for 2017, representing an increase of 340%, compared to the basic and diluted earnings per share of the company shareholders for 2016 amounting to 5 Fils.



2035

A Bright **Future**

We look forward to the future in confidence that we will remain one of the main pillars of development & prosperity.

It is noteworthy that the Remuneration and Nomination Committee has evaluated the Chief Executive Officer and members of the Executive Management according to the KPIs, each according to their position in the Company and the functions they perform. Accordingly, an amount of KD 261,575 (Only two hundred sixty one thousand five hundred seventy five Kuwaiti Dinars) was allocated as incentives for their performance for the fiscal year 2017.

With regard to the Company dividends for the fiscal year ended 31.12.2017, NIC is pleased to announce the recommendation of the Board of Directors to distribute to their shareholders cash dividend of 7% of the share capital being equal to 7 Fils per share (less treasury shares). The Board of Directors also made a recommendation to distribute a reward to the members of the Board of Directors for the fiscal year ended 31.12.2017, amounting to KD 185,000. (Only one hundred eighty five thousand Kuwaiti Dinars), and a special reward to the Chairman of the Board of Directors of KD 160,650. (Only one hundred sixty thousand six hundred fifty Kuwaiti Dinars), noting that these recommendations are subject to the approval of the regulatory authorities and the General Assembly.

I would like to seize this opportunity on behalf of myself and my fellow Board Members to extend our sincere thanks and

appreciation, to the Executive Management and all employees of NIC for their valuable efforts and dedication that enabled NIC to achieve the results it did and promote its position as a leading investment company in Kuwait.

In conclusion, I would like to extend on behalf of NIC's Board of Directors and all employees of the Company, our sincere gratitude and appreciation to His Highness the Amir, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, His Highness the Crown Prince, Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, and His Highness the Prime Minister, Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, as well as the members of our government for their continued support of Kuwait's national institutions and companies, and my sincere gratitude to the Capital Markets Authority and the Central Bank of Kuwait as well as the Ministry of Commerce and Industry for their considerable efforts in supporting and ensuring economic growth. We pray to God Almighty to perpetuate the blessing of safety, security and prosperity for our country.



Hamad Ahmad Al Ameeri
Chairman

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL INVESTMENTS COMPANY K.S.C.P.

Report on the Audit of Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's 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 ethical 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 period. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

Valuation of investment securities carried at fair value

Investment securities carried at fair value comprises of financial assets available for sale and financial assets at fair value through profit or loss. The valuation of the Group's investment securities carried at fair value involve the exercise of judgment by the management and the use of assumptions and estimates, most predominantly for the instruments classified under level 2 and level 3. Key judgments applied by management in valuation of the Group's investment securities carried at fair value include determination of price to book multiples from comparable companies, identification of recent sales transactions, calculated Net Asset Value (NAV) and fair value from third party managers including application of illiquidity discounts in certain cases. Due to these estimation uncertainties, this is considered a key audit matter. The Group's policies on valuation and impairment of investments securities carried at fair value are presented in accounting policies and in Notes 2.5 and 12 of the consolidated financial statements.

As part of our audit procedures we have tested the level 1 fair valuations by comparing the fair values applied by the Group with publicly available market data. For level 2 and 3 valuations we evaluated the models and the assumptions used by the management and the reliability of the data that was used as input to these models, comparing the models used with prior years and involving valuation specialists in our audit team. We also evaluated the management's assessment whether objective evidence of impairment exists for financial assets available for sale, where the fair value is below cost, and whether it represents a significant or prolonged decline in value. We further assessed that the main assumptions and related uncertainties are appropriately reflected in the disclosure in Note 26 of the consolidated financial statements.

Other information included in the Group's 2017 Annual Report

Management is responsible for the other information. Other information consists of the information included in Group's 2017 Annual Report, 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 auditor's report, and we expect to obtain the remaining sections of the Group's 2017 Annual Report after the date of our auditor's report.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL INVESTMENTS COMPANY K.S.C.P. (Continued)

Report on the Audit of Consolidated Financial Statements (Continued)

Key Audit Matters (Continued)

Other information included in the Group's 2017 Annual Report (Continued)

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 auditor's 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.

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL INVESTMENTS COMPANY K.S.C.P. (Continued)

Report on the Audit of Consolidated Financial Statements (Continued)

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

- 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 period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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



BADER A. AL-ABDULJADER
LICENCE NO. 207 A
EY
(AL-AIBAN, AL-OSAIMI & PARTNERS)

7 March 2018
Kuwait



MOHAMMED HAMED AL SULTAN
LICENCE NO. 100 A
AL SULTAN AND PARTNERS
MEMBER OF BAKERTILLY INTERNATIONAL

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Notes	2017 KD 000's	2016 KD 000's
INCOME			
Realised loss on financial assets at fair value through profit or loss		(398)	(1,533)
Unrealised gain on financial assets at fair value through profit or loss		930	2,120
Realised gain on financial assets available-for-sale		8,315	1,439
Change in fair value of investment properties	14	229	(1,692)
Rental income	14	1,797	1,924
Dividend income	3	3,457	4,183
Gain on sale of investment properties		555	-
Management, brokerage and advisory fees		3,096	4,164
Interest income		60	6
Share of results of associates	13	1,639	(435)
Gain on foreign exchange trading		137	326
Other income	4	1,022	111
TOTAL INCOME		20,839	10,613
EXPENSES			
Finance costs		414	422
Administrative expenses	5	6,496	6,196
Impairment losses and other provisions	6	2,702	7,035
Loss on foreign currency translation		216	21
TOTAL EXPENSES		9,828	13,674
PROFIT (LOSS) FOR THE YEAR BEFORE TAXATION AND DIRECTORS' REMUNERATION			
Directors' remuneration		(185)	-
Taxation	7	(405)	-
PROFIT (LOSS) FOR THE YEAR		10,421	(3,061)
Attributable to:			
Equity holders of the Parent Company		10,307	(3,978)
Non-controlling interests	20	114	917
		10,421	(3,061)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY			
	8	12 fils	(5) fils

The attached notes 1 to 27 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 KD 000's	2016 KD 000's
Profit (loss) for the year		10,421	(3,061)
Other comprehensive (loss) income:			
<i>Items that are or may be reclassified in subsequent periods to the consolidated income statement</i>			
Net unrealised income on financial assets available-for-sale	18 (e)	2,548	141
Transfer to consolidated income statement on sale of financial assets available for sale	18 (e)	(5,819)	464
Transfer to consolidated income statement on impairment of financial assets available for sale	18 (e)	2,070	6,130
Share of other comprehensive income (loss) of associates	13 & 18(e)	210	(83)
Foreign currency translation adjustments	18 (e)	(434)	182
Foreign currency translation reserve transferred to consolidated income statement due to liquidation of a subsidiary		-	(140)
Realised loss on derecognition of an associate on a merger transaction (Note 2.2)		258	-
Realised loss on derecognition of a subsidiary on a merger transaction (Note 2.2)		270	-
Other comprehensive (loss) income for the year		(897)	6,694
Total comprehensive income for the year		9,524	3,633
Attributable to:			
Equity holders of the Parent Company		9,505	2,581
Non-controlling interest		19	1,052
		9,524	3,633

The attached notes 1 to 27 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 KD 000's	2016 KD 000's
ASSETS			
Cash and balances with banks and financial institutions	9	7,120	15,192
Financial assets at fair value through profit or loss	10	20,049	20,252
Trading properties	11	477	620
Financial assets available-for-sale	12	91,159	100,678
Investment in associates	13	33,141	22,357
Investment properties	14	31,266	32,632
Other assets	15	10,383	4,549
Goodwill		-	431
TOTAL ASSETS		193,595	196,711
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	16	6,703	7,653
Accounts payable and accruals	17	7,570	8,867
TOTAL LIABILITIES		14,273	16,520
EQUITY			
Share capital	18	87,621	87,621
Share premium	18	49,593	49,593
Statutory reserve	18	5,787	16,721
Treasury shares	18	(7,977)	(5,411)
Treasury shares reserve		26,588	26,546
Foreign currency translation reserve		(84)	255
Cumulative changes in fair value		3,167	3,630
Retained earnings (accumulated losses)		9,217	(7,819)
Equity attributable to the equity holders of the Parent Company		173,912	171,136
Non-controlling interests	20	5,410	9,055
TOTAL EQUITY		179,322	180,191
TOTAL LIABILITIES AND EQUITY		193,595	196,711



Hamad Ahmad Al-Ameeri
Chairman



Fahad Abdulrahman Al-Mukhaizim
Chief Executive Officer

The attached notes 1 to 27 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

Attributable to equity holders of the Parent Company

	Share capital KD 000's	Share premium KD 000's	Statutory reserve KD 000's	Treasury shares KD 000's	Treasury shares reserve KD 000's	Foreign currency translation reserve KD 000's	Cumulative changes in fair value KD 000's	Retained earnings (accumulated losses) KD 000's	Sub-total KD 000's	Non-controlling interests KD 000's	Total KD 000's
As at 1 January 2017	87,621	49,593	16,721	(5,411)	26,546	255	3,630	(7,819)	171,136	9,055	180,191
Profit for the year	-	-	-	-	-	-	-	10,307	10,307	114	10,421
Other comprehensive loss for the year	-	-	-	-	-	(339)	(463)	-	(802)	(95)	(897)
Total comprehensive (loss) income for the year	-	-	-	-	-	(339)	(463)	10,307	9,505	19	9,524
Transfer to statutory reserve	-	-	1,090	-	-	-	-	(1,090)	-	-	-
Purchase of treasury shares	-	-	-	(4,153)	-	-	-	-	(4,153)	-	(4,153)
Sale of treasury shares	-	-	-	1,587	42	-	-	-	1,629	-	1,629
Write off of accumulated losses (Note 18)	-	-	(7,819)	-	-	-	-	7,819	-	-	-
Dividend (Note 18)	-	-	(4,205)	-	-	-	-	-	(4,205)	-	(4,205)
Movement in non-controlling interests	-	-	-	-	-	-	-	-	-	(714)	(714)
Loss of control of a subsidiary (Note 2.2)	-	-	-	-	-	-	-	-	-	(2,950)	(2,950)
As at 31 December 2017	87,621	49,593	5,787	(7,977)	26,588	(84)	3,167	9,217	173,912	5,410	179,322
As at 1 January 2016	87,621	49,593	16,721	(4,986)	26,546	273	(2,947)	(3,841)	168,980	8,816	177,796
(Loss) profit for the year	-	-	-	-	-	-	-	(3,978)	(3,978)	917	(3,061)
Other comprehensive (loss) income for the year	-	-	-	-	-	(18)	6,577	-	6,559	135	6,694
Total comprehensive (loss) income for the year	-	-	-	-	-	(18)	6,577	(3,978)	2,581	1,052	3,633
Purchase of treasury shares	-	-	-	(425)	-	-	-	-	(425)	-	(425)
Movement in non-controlling interests	-	-	-	-	-	-	-	-	-	(813)	(813)
As at 31 December 2016	87,621	49,593	16,721	(5,411)	26,546	255	3,630	(7,819)	171,136	9,055	180,191

The attached notes 1 to 27 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 KD 000's	2016 KD 000's
OPERATING ACTIVITIES			
Profit (loss) for the year before taxation and directors' remuneration		11,011	(3,061)
Adjustments for:			
Unrealised gain on financial assets at fair value through profit or loss		(930)	(2,120)
Realised gain on financial assets available-for-sale		(8,315)	(1,439)
Change in fair value of investment properties	14	(229)	1,692
Dividend income	3	(3,457)	(4,183)
Interest income		(60)	(6)
Share of results of associates	13	(1,639)	435
Finance costs		414	422
Depreciation		145	158
Impairment losses	6	2,702	7,035
Other income	4	(1,022)	(111)
Gain on sale of investment properties		(555)	-
		(1,935)	(1,178)
<i>Changes in operating assets and liabilities</i>			
Financial assets at fair value through profit or loss		1,039	2,794
Trading properties		(31)	-
Other assets		(1,396)	706
Accounts payable and accruals		(373)	27
Cash from operations		(2,696)	2,349
Interest income received		60	6
Tax paid		(11)	-
Net cash flows (used in) from operating activities		(2,647)	2,355
INVESTING ACTIVITIES			
Capital reduction and liquidation proceeds of associates		3,259	1,453
Purchase of associates		(4,485)	(325)
Purchase of financial assets available-for-sale		(50,034)	(24,397)
Proceeds from sale of financial assets available-for-sale		52,480	24,591
Additions to investment properties	14	(349)	(2,184)
Dividend from associates	13	253	636
Dividend income received		3,462	4,180
Net cash flows from investing activities		4,586	3,954

The attached notes 1 to 27 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the year ended 31 December 2017

	<i>Notes</i>	2017 KD 000's	<i>2016</i> <i>KD 000's</i>
FINANCING ACTIVITIES			
Short term borrowing availed		1,620	643
Purchase of treasury shares		(4,153)	(425)
Sale of treasury shares		1,629	-
Finance costs paid		(440)	(398)
Dividend paid	18	(3,990)	(108)
Movement in non-controlling interests		(714)	(813)
Net cash flows used in financing activities		(6,048)	(1,101)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		12,622	5,208
Less: cash and cash equivalents on deconsolidation of a subsidiary		(1,393)	-
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		7,120	12,622
	9		

The attached notes 1 to 27 form part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

1 CORPORATE INFORMATION

The Group comprises National Investments Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively the "Group"). The Parent Company is a Public Kuwait Shareholding Company incorporated on 6 December 1987, and listed on the Kuwait Stock Exchange. The Parent Company is regulated by the Central Bank of Kuwait ("CBK") for financing activities and Capital Market Authority ("CMA") as an investment company.

The purposes and objectives of the Parent Company are as follows:

- Undertaking all financial brokerage works and associated activities.
- Carrying out all financial transactions such as lending, borrowing, acting as a guarantor and issuance of bonds of all kinds with or without collateral in both local and global markets.
- Incorporating or participation in the incorporation of companies of all different types, purposes and nationalities as well as selling and purchasing of their shares, issued bonds and financial rights.
- Undertaking all the activities related to securities, including selling and purchase of all types of bonds and shares whether those issued by local and global private sector, governmental or semi-governmental companies.
- Managing financial portfolios, investing and developing its customers' funds by utilizing them in all local and global investment aspects.
- Investing in real estate, industrial, agricultural sectors and other economic sectors by participation in incorporating specialized companies or purchase of their shares.
- Undertaking real estate investments aiming at developing residential lands and building units, residential and commercial complexes with a view to sell or lease them.
- Carrying out research and studies relating to capital investment and providing all associated services to third parties.
- Acting as issuance managers for bonds issued by companies or agencies.
- Establishment and management of investment funds for its own and others' account as well as issuing units for subscription and acting as manager for investment funds inside and outside the country in accordance with the applicable decisions and laws in the country.
- Managing funds of private and public institutions as well as investing and developing these funds in various economic sectors, including management and utilization of real estate portfolios in all local and global investment aspects.
- Providing and preparing research, studies as well as technical, economic and evaluation consultations in addition to studying investment projects and preparing required studies for institutions, companies and business sectors of all types.
- Dealing and trading in foreign currency exchange and precious metals market inside and outside Kuwait for its own account without prejudice to the prohibition stipulated by ministerial resolution issued concerning the Central Bank of Kuwait regulation of investment companies.
- Carrying out all financial, consulting and investment services which help in fulfilling the needs of the financial and monetary market in Kuwait.
- Owning industrial property rights, patents, industrial and commercial trademarks, commercial royalties, literary and intellectual rights relating to software, publications as well as utilizing and franchising them to other bodies.

The Parent Company may have an interest or participate in any manner with bodies performing activities similar to its own to assist the Parent Company in achieving its purpose inside or outside Kuwait. It may also establish, participate, merge or buy such corporations.

The Parent Company's registered head office is at Khaleejia Complex, Al Mutanabi Street, Kuwait.

The consolidated financial statements for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Parent Company's Board of Directors on 7 March 2018 and are subject to the approval of the General Assembly of the shareholders of the Parent Company. The Annual General Assembly of the shareholders of the Parent Company has the power to amend these consolidated financial statements. The Annual General Assembly of the shareholders of the Parent Company held on 1 June 2017 approved the Group's consolidated financial statements for the year ended 31 December 2016.

Details of subsidiaries are given in Note 2.2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective provision, which has been replaced by the CBK's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

The consolidated financial statements are prepared under the historical cost convention except for the revaluation at fair value of financial assets at fair value through profit or loss, financial assets available-for-sale, investment properties and derivatives financial instruments that have been measured at fair value.

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

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All Intra- group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in consolidated income statement. Any investment retained is recognised at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

2.2 BASIS OF CONSOLIDATION (Continued)

Details of material subsidiary companies are as follows:

<i>Name</i>	<i>Country of Incorporation</i>	<i>% Holding</i>	<i>% Holding</i>	<i>Principal activities</i>
		<i>2017</i>	<i>2016</i>	
International Infrastructure Holding Co. K.S.C. (Closed)	Kuwait	99	99	Investments
Gulf Investments Company EC ("GIC") (Under liquidation)*	Bahrain	99	99	Investments
National Investment Company S.A.L.	Lebanon	100	100	Property development
Al Bawaba Al Wataniya for General Trading and Contracting Company W.L.L.	Kuwait	99	99	Trading and Contracting
National Gate for Computer Systems Company K.S.C. (Closed)	Kuwait	99	99	Information technology
Sapphire International Holding Limited	British Virgin Islands	100	100	Investments
Al Seef Financial Brokerage Company K.S.C. (Closed) ("Al Seef") **	Kuwait	-	47.86	Financial Brokerage
National Investment Co. Holding S.A.L.	Lebanon	99	99	Investments
Al Mada Investment Fund ("Al Mada")	Bahrain	48.51	48.63	Investments

* The Parent Company has taken full provision against the carrying value of its investment in the subsidiary at 31 December 1992 amounting to KD 4,921 thousand. Further, the subsidiary has been inactive for a number of years. During 2014, GIC's shareholders have approved the voluntary liquidation of GIC in the extra ordinary general meeting held on 5 May 2014. GIC is now represented by the liquidation committee.

** On 19 February 2017, the Group's equity interest in Al Seef ("former subsidiary") was diluted from 47.86% to 41.98% as a result of the merger transaction between Al Seef and Al Waseet Financial Business Company K.S.C. (Closed) ("former associate"). As a result of the merger, the commercial license of former associate was dissolved during the current year. The merger transaction was conducted via a shares swap arrangement being executed in a swap ratio of 1:1.463 (i.e.: each share of the former associate was to be converted to 1.463 shares in Al Seef). Further, the Parent Company lost its ability to control Al Seef, and accordingly, classified the investment in Al Seef as an associate in accordance with IAS 28: *Investment in Associates and Joint Ventures*. The Group realised a gain of KD 460 thousand on derecognition of the former associate. In addition, the Group incurred a loss of KD 618 thousand upon deconsolidating the former subsidiary. The net impact of the transaction was recorded in the consolidated income statement under 'other income'. Further, the Group derecognised the related non-controlling interests' balance of KD 2,950 thousand.

2.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the adoption of the amendments to the existing standards relevant to the Group, effective as of 1 January 2017. The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The amendments have no material impact on the accounting policies, financial position or performance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

2.3 CHANGES IN ACCOUNTING POLICIES (Continued)

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

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group applied amendments retrospectively. However, their application has no material effect on the Group's financial position and performance as the Group.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2017 did not have any material impact on the accounting policies, financial position or performance of the Group.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 '*Financial Instruments*' that replaces IAS 39 '*Financial Instruments: Recognition and Measurement*' and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in the financial year 2018, when the Group will adopt IFRS 9. In addition, the Group will implement changes in classification of certain financial instruments.

Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three classification categories for financial assets: measured at Amortised Cost, Fair Value through Other Comprehensive Income ("FVOCI") (without recycling of gains or losses to profit or loss on derecognition of equity instruments) and Fair Value Through Profit or Loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

The Group has evaluated the classification and measurement criteria to be adopted for various financial assets considering the IFRS 9 requirements with respect to the business model and contractual cash flow characteristics ("CCC") / Solely payment of principal and interest ("SPPI"). The impact from the adoption of classification and measurement approach of IFRS 9 is as follows:

- The Group does not expect a significant impact on its consolidated statement of financial position from applying the classification and measurement requirements of IFRS 9 except for certain financial assets held as available-for-sale mainly representing Group's investment in funds and certain equity investments will, instead, be measured at FVTPL amounting to KD 49,019 thousand and certain financial assets classified as financial assets at fair value through profit or loss amounting to KD 7,409 thousand will be measured at FVOCI.
- At 31 December 2017, the Group has equity securities classified as available-for-sale. Under IFRS 9, the Company has designated some of these investments as measured at FVOCI.
- Upon adoption of the new classification and measurement principles under IFRS 9 as noted above, the estimated decrease in fair value reserve will be by KD 1,204 thousand and estimated increase in the retained earnings will be by KD 1,204 thousand as at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

IFRS 9 Financial Instruments (Continued)

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

Under IFRS 9, the impairment requirements apply to financial assets measured at amortised cost, debt instruments classified as fair value through other comprehensive income and certain financing facilities and financial guarantee contracts. At initial recognition, allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Adoption of ECL model is not expected to have significant impact on the Group's consolidated financial statements as the Group does not have debt instruments.

Hedge accounting

As at 31 December 2017, the Group does not have any hedge relationships. Hence, the hedging requirements of IFRS 9 will not have a significant impact on Group's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Group did not early adopt IFRS 15 and has evaluated that the adoption of the standard will not have significant impact on the Group's consolidated financial statements.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the consolidated statement of income. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Group does not anticipate early adopting IFRS 16 and is in the process of evaluating the effect of IFRS 16 on the Group and do not expect any significant impact on adoption of this standard.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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.

If the business combination is achieved in stages, the previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in consolidated income statement.

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

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in consolidation income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Fee income

Fees earned for the provision of services over a period of time are accrued over that period. These fees include management fees, incentive fees, placement fees, advisory fees and brokerage.

Dividend income

Dividend income is recognised when the Group's right to receive payment is established, which is generally when shareholders approve the dividend.

Rental income

Rental income is accounted for on accrual basis.

Interest income

Interest income is recognised as interest accrues using the effective yield method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

The Group calculates the contribution to KFAS at 1% of profit for the year in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the transfer to statutory reserve should be excluded from profit for the period when determining the contribution.

National Labour Support Tax (NLST)

The Group calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the period. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST are deducted from the profit for the year when determining taxable profit.

Zakat

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

Income tax

Taxation on the Group components is provided in accordance with fiscal regulations applicable to each country of operation.

Cash and cash equivalents

For purposes of the consolidated statement of cash flows, cash and cash equivalents includes cash and balances with banks and financial institutions, less due to bank and other short-term borrowings due within three months of the contract date.

Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as "financial assets at fair value through profit or loss," "loans and receivables," "held-to-maturity investments," or "financial assets available-for-sale," or "derivatives as appropriate." The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

The Group's financial assets include cash and balances with banks and financial institutions, quoted and unquoted financial instruments, other assets and derivative financial instruments.

Subsequent measurement

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

Financial assets at fair value through profit or loss

The category of financial assets at fair value through profit or loss is sub divided into:

Financial assets held for trading

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Subsequent measurement (Continued)

Financial assets designated at fair value through profit or loss upon initial recognition

Financial assets are designated at fair value through profit or loss if they are managed, and their performance is evaluated on reliable fair value basis in accordance with a documented investment strategy. After initial recognition financial assets at fair value through profit or loss are remeasured at fair value with all changes in fair value recognised in the consolidated income statement.

Derivative instruments are categorised as held for trading unless they are designated as hedging instruments.

Financial assets available-for-sale

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

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

Other assets

Other assets are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable.

Derivatives

Derivative instruments are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value.

The Group enters into derivative financial instruments including foreign exchange forward contracts. Derivatives are stated at fair value. The fair value of a derivative includes unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Foreign currency derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in accounts payable and accruals in the consolidated statement of financial position.

The resultant gains and losses from derivatives are included in the consolidated income statement.

Derecognition

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition (Continued)

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

Impairment of financial assets

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

Loans and advances

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

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

Financial assets available-for-sale

For financial assets available-for-sale, the Group assesses at each reporting date whether there is objective evidence that a financial asset available-for-sale or a group of financial assets available for sale is impaired.

In the case of equity investments classified as financial assets available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on those financial assets available-for-sale previously recognised in the consolidated income statement, is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increase in their fair value after impairment is recognised directly in other comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

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

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, including directly attributable transaction costs.

The Group's financial liabilities include due to banks and accounts payable and accruals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method (EIR). Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

Accounts payable

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

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

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.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Fair value measurement (Continued)

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 quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

For mutual fund investments, fair value is determined based on net asset values reported by the fund managers.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by using valuation techniques, such as recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, price multiples of relevant sector and comparable quoted companies discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

The fair value of interest bearing financial instruments is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

The fair value of unquoted derivatives is determined either by discounted cash flows or by reference to a broker's quotes.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

An analysis of fair value of financial instruments and further details as to how they are measured are provided in Note 26.

Trading properties

Trading properties are carried at the lower of cost and net realisable value on an individual basis. Cost comprises the purchase price of the property and other expenses in order to complete the transaction. Net realisable value is based on estimated selling price less any further costs to be incurred on disposal. The estimated selling price is assessed as the lower of the values assessed by at least two accredited external independent valuers on an annual basis. Reductions in carrying value are taken to the consolidated income statement.

Investment in associates

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in its associates are accounted for using the equity method. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the statement of comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of comprehensive income.

The share of result of an associate is shown on the face of the consolidated income statement. This is the result attributable to equity holders of the associate and therefore is result after tax and non-controlling interests in the subsidiaries of the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in associates (Continued)

The financial statements of the associates are prepared for the same reporting period as the Group and in case of different reporting date of associates, which are not more than three months, from that of the Group, 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. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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 in the consolidated income statement.

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

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the period in which they arise. Fair values are evaluated annually and recorded at the lower of the valuations assessed by at least two accredited external independent valuers.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated income statement in the period of de-recognition.

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. Where the Parent Company uses only part of a property it owns, the utilisation of the insignificant portion is regarded as immaterial, which means that the whole property is stated at market value as an investment property.

Fiduciary assets

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

Treasury shares

The Parent Company's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in equity (treasury shares reserve) which is non-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 reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are distributed on these shares and the voting rights related to these shares are nullified. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Provisions

Provisions are recognised when the Group has a present obligation (legal or contractual) arising from a past event and the costs to settle the obligation are both probable and measurable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employees' end of service benefits

The Group provides employees' end of service benefits to its employees in accordance with Labour Law applicable to each country of operation. The expected costs of these benefits are accrued over the period of employment.

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

Foreign currency translation

The consolidated financial statements are presented in Kuwaiti Dinars, which is the Parent Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Group companies

As at the reporting date, the assets and liabilities of foreign subsidiaries, and the carrying amount of foreign associates, are translated into the Parent Company's presentation currency (the Kuwaiti Dinars) at the rate of exchange ruling at the reporting date, and their income statement are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken to the consolidated statement of comprehensive income as foreign exchange translation reserve within equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to the particular foreign operation is recognised in the consolidated income statement.

Contingencies

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

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

Segment information

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments.

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. Uncertainty about the assumptions and estimates could result in outcomes that require a material adjustment to the amount of the asset or liability affected in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Judgments

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

Classification of financial instruments

Judgements are made in the classification of financial instruments based on management's intention at acquisition.

The Group classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making.

Classification of financial assets as fair value through profit or loss depends on how management monitors the performance of these financial assets. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of consolidated income statement in the management accounts, they are designated as fair value through profit or loss.

Classification of assets as loans and receivables depends on the nature of the asset. If the Group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

All other financial assets are classified as available-for-sale.

Classification of real estate property

Management decides on acquisition of real estate whether it should be classified as trading or investment property.

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

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

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 judgment.

Impairment of financial assets available-for-sale

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Estimation uncertainty and assumptions

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

Valuation of unquoted equity investments

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

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

There are a number of investments where this estimation cannot be reliably determined. As a result, these investments are carried at cost less impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Estimation uncertainty and assumptions (Continued)

Valuation of derivative financial instruments

Valuation of derivative financial instruments is normally based on one of the following:

- Active market quoted price for the exchange traded derivative financial instrument;
- Active market quoted prices for the valuation drivers of the derivative instruments e.g. foreign currency rates, equity prices and interest rates.

Valuation of investment properties

The Group estimates the fair value of investment properties using two independent third party valuations who make considerable judgment and assumptions to reflect the market conditions at the reporting date.

Impairment of associates

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 companies, at each reporting date based on existence of 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 associates and its carrying value and recognises the amount in the consolidated income statement.

3 DIVIDEND INCOME

	2017 KD 000's	2016 KD 000's
Financial assets at fair value through profit or loss	971	972
Financial assets available-for-sale	2,486	3,211
	3,457	4,183

4 OTHER INCOME

	2017 KD 000's	2016 KD 000's
Gain on fair valuation of financial assets upon reclassification to investment in associates	855	-
Gain on bargain purchase of additional interests in associates	233	-
Net loss on merger of Seef and Wasseet	(158)	-
Others	92	111
	1,022	111

5 ADMINISTRATIVE EXPENSES

	2017 KD 000's	2016 KD 000's
Staff costs	4,545	3,484
Other administrative expenses	1,806	2,554
Depreciation	145	158
	6,496	6,196

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

6 IMPAIRMENT LOSSES AND OTHER PROVISIONS

	2017 KD 000's	2016 KD 000's
Impairment on financial assets available for sale (Note 12)	2,070	6,130
Impairment loss on associates (Note 13)	998	872
Reversal of provisions no longer required	(1,142)	-
Write down in value of trading properties	182	-
Others	594	33
	2,702	7,035

7 TAXATION

	2017 KD 000's	2016 KD 000's
Kuwait Foundation for the Advancement of Sciences (KFAS)	89	-
National Labour Support Tax (NLST)	229	-
Zakat	82	-
Tax expenses of overseas subsidiary	5	-
	405	-

8 BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share is computed by dividing the profit (loss) for the year attributable to equity holders of the Parent Company by the weighted average number of shares outstanding during the year less treasury shares.

	2017	2016
Profit (loss) for the year attributable to equity holders of the Parent Company (KD'000)	10,307	(3,978)
Weighted average number of shares outstanding during the year (excluding treasury shares)	837,160,985	838,092,605
Basic and diluted earnings (loss) per share attributable to the equity holders of the Parent Company	12 fils	(5) fils

As there are no dilutive instruments outstanding, basic and diluted loss per share are identical.

9 CASH AND CASH EQUIVALENTS

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

	2017 KD 000's	2016 KD 000's
Cash and balances with banks and financial institutions	7,120	15,192
Less:		
Due to banks maturing within 3 months of the contract date	-	(2,570)
	7,120	12,622

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 KD 000's	2016 KD 000's
Financial assets held for trading:		
Local quoted securities	11,957	10,200
Foreign quoted securities	8,092	10,052
	20,049	20,252

The hierarchy for determining and disclosing the fair values of financial instruments by valuation technique are presented in Note 26.

11 TRADING PROPERTIES

Trading properties represent properties in Lebanon.

The properties are valued at the lower of cost and net realisable value. Based on the lower of two independent market valuations carried out by two registered real estate assessors with relevant experience in the market in which the properties are situated, the net realisable value of KD 634 thousand (2016: KD 780 thousand) is higher than its cost of KD 477 thousand (2016: KD 620 thousand). During the year, the Parent Company recorded a write down in value of trading properties of KD 182 thousand.

Fair value hierarchy disclosures for trading properties have been provided in Note 26.

12 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2017 KD 000's	2016 KD 000's
Quoted equity investments	41,252	39,156
Unquoted equity investments	23,329	32,061
Unquoted mutual fund investments (investing in quoted securities)	26,578	29,461
	91,159	100,678

During the year, the Group has charged an impairment loss of KD 620 thousand (2016: KD 2,741 thousand) against quoted equity investments.

Unquoted equity investments with a carrying value of KD 23,329 thousand (2016: Nil) are fair valued using fair valuation techniques which resulted in a net unrealised profit of KD 1,116 thousand during the year (2016: unrealised loss of KD Nil) recorded in other comprehensive income and KD 1,370 thousand (2016: KD Nil) as impairment charge.

In the prior year, unquoted equity investments with a carrying value of KD 32,061 thousand were carried at cost less impairment, due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value of these investments. Management had performed a detailed review of its unquoted equity investments to assess whether impairment has occurred in the value of these investments and recorded an impairment loss of KD 3,105 thousand in the consolidated income statement.

The unquoted mutual fund investments are mainly carried at net asset values provided by the fund managers. The Group has charged an impairment loss of KD 80 thousand (2016: KD 284 thousand) against the unquoted mutual funds.

The hierarchy for determining and disclosing the fair values of financial instruments by valuation technique are presented in Note 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

13 INVESTMENT IN ASSOCIATES

The details of associates are as follows:

<i>Name of company</i>	<i>Interest in equity</i>		<i>Country of registration</i>	<i>Principal activities</i>
	<i>2017</i>	<i>2016</i>		
Al Waseet Financial Business Company K.S.C. (Closed) (the newly merged entity) *	41.98%	-	Kuwait	Investment brokerage services
Al Waseet Financial Business Company K.S.C. (Closed)*	-	37.64%	Kuwait	Brokerage
Seera Investment Company B.S.C.C. (Previously Seera Investment Bank)	34.33%	34.33%	Bahrain	Investment business firm (previously investment bank)
MENA Capital Holding Company K.S.C. (Closed)	46.59%	21.59%	Kuwait	Investments
Al Oula Real Estate Investment Company K.S.C. (Closed)	33.43%	33.21%	Kuwait	Real Estate Investment
First Energy Resources Company K.S.C (Closed) (Under Liquidation)	23.98%	23.98%	Kuwait	Investment in energy sector
First Education Company K.S.C. (Closed) **	22.09%	-	Kuwait	Educational services
Osos Holding Group Company K.P.S.C **	21.59%	-	Kuwait	Investments
National Electronic Management Services K.S.C. (Closed) (Under Liquidation)	21.80%	21.80%	Kuwait	Information technology

* During the year, Al Seef Financial Brokerage Company K.S.C. (Closed) ("Al Seef") (former subsidiary) entered into a merger transaction with Al Waseet Business Company K.S.C. (Closed) ("Al Waseet") (former associate). The merger transaction was approved by the CMA on 19 February 2017. The Group's holding in Al Seef was diluted from 47.86% to 41.98% in addition to the re-composition of the board of directors. As a result, the Group lost its ability to exercise control over Al Seef and started to account for Al Seef as an associate in accordance with IAS 28. The name of new merged entity was subsequently changed from "Al Seef" to "Al Waseet Financial Business Company K.S.C. (Closed)."

** During the year, the Group acquired additional equity interests of 1.8% and 5% in Osos Holding Group Company K.P.S.C. ('Osos') and First Education Company K.S.C. (Closed) ('FEC') (previously classified as a financial assets available for sale and financial assets at fair value through profit or loss) respectively. Following the acquisition of additional equity interests, the Group determined that it exercises significant influence over Osos and FEC and consequently accounted for these transactions under IAS 28: Investment in Associate and Joint ventures ("IAS 28"). As a result, the Group has recognised a total gain of KD 855 thousand in the consolidated income statement included under 'other income'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

13 INVESTMENT IN ASSOCIATES (Continued)

The movement in the carrying amount of investment in associates during the year is as follows:

	2017 KD 000's	2016 KD 000's
As at 1 January	22,357	25,444
Additions	16,300	325
Share of results for the year	1,639	(435)
Dividend and capital distributions	(3,512)	(2,089)
Share of other comprehensive income (loss)	210	(83)
Foreign currency translation adjustment	(151)	67
Liquidation proceeds from an associate	(449)	-
Derecognition	(2,255)	
Impairment loss on associates (Note 6)	(998)	(872)
As at 31 December	33,141	22,357

Management has performed a detailed review of these investments to assess whether impairment has occurred in the value of these investments. In the opinion of management, based on currently available information, there is no evidence of impairment in the value of these investments.

Share of aggregate of associates' gross assets and liabilities:

	2017 KD 000's	2016 KD 000's
Current assets	18,094	8,923
Non-current assets	27,540	21,339
Current liabilities	3,682	4,035
Non-current liabilities	3,508	1,749

Share of aggregate of associates' revenue and results:

	2017 KD 000's	2016 KD 000's
Revenue	3,173	2,752
Profit (loss) for the year	1,638	(435)
Other comprehensive income (loss)	59	(16)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

14 INVESTMENT PROPERTIES

	2017 KD 000's	2016 KD 000's
As at 1 January	32,632	32,140
Additions	349	2,184
Disposals	(1,944)	
Change in fair value	229	(1,692)
As at 31 December	31,266	32,632

The Group's investment properties consist of properties in Kuwait and other GCC countries. The fair value of investment properties has been determined based on the lower of two valuations obtained from two independent, registered real estate assessors.

Certain investment properties amounting to KD 10,064 thousand (2016: KD 10,471 thousand) are collateralised against loans (Note 16).

	2017 KD 000's	2016 KD 000's
Rental income derived from investment properties	1,797	1,924
Direct operating expenses (including repairs and maintenance)	(560)	(399)
Net rental income arising from investment properties	1,237	1,525

Reconciliation of fair value:

	<i>Investment properties</i>	
	<i>Resort</i> KD 000's	<i>Buildings</i> KD 000's
As at 1 January 2016	331	31,809
Re-measurement recognised in consolidated income statement	(331)	(1,361)
Additions	-	2,184
As at 31 December 2016	-	32,632
Re-measurement recognised in consolidated income statement	-	229
Additions	-	349
Disposals	-	(1,944)
As at 31 December 2017	-	31,266

Fair value hierarchy disclosures for investment properties have been provided in Note 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

15 OTHER ASSETS

	2017 KD 000's	2016 KD 000's
Accrued management fees	594	543
Advances given for purchase of investments	2,756	1,839
Positive fair value of derivatives (Note 24)	7	-
Investment redemption receivables	3,401	-
Receivable on sale of investment properties	2,500	-
Other assets	1,125	2,167
	10,383	4,549

16 DUETO BANKS

	2017 KD 000's	2016 KD 000's
Secured borrowings:		
- Denominated in Kuwaiti Dinars	6,703	6,713
- Denominated in USD	-	940
	6,703	7,653

The facilities as on 31 December 2017 carries interest rate ranging from 4.5% to 4.75% (2016: 3.4% to 4.50%) and are repayable within one year.

All facilities are secured by investment properties (Note 14).

17 ACCOUNTS PAYABLE AND ACCRUALS

	2017 KD 000's	2016 KD 000's
Accrued expenses	4,391	3,754
Dividend payable	1,481	1,266
Other payables	1,698	3,847
	7,570	8,867

18 SHARE CAPITAL, RESERVES AND DIVIDENDS

a) Share capital

The authorised, issued and fully paid up share capital at 31 December 2017, comprises 876,213 thousand shares (2016: 876,213 thousand shares) of 100 fils each paid up in cash.

b) Share premium

Share premium is not available for distribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

18 SHARE CAPITAL, RESERVES AND DIVIDENDS (Continued)**c) Statutory reserve**

In accordance with the Companies Law and the Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, Zakat, NLST and Directors' remuneration is to be transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up capital.

Distribution of the Parent Company's 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 in which the Parent Company's profits are not sufficient for the payment of a dividend of that amount.

On 1 June 2017, the Parent Company's shareholders at the Annual General Meeting ("AGM") approved the write-off the accumulated losses balance as at 31 December 2016 amounting to KD 7,819 thousand against the statutory reserve.

d) Treasury shares

	2017	2016
Number of treasury shares	68,131,173	39,046,273
Percentage of capital	7.78%	4.46%
Cost – KD thousand	7,977	5,411
Market value – KD thousand	6,677	3,709
Weighted average of market value per share (fils)	116	101

Treasury shares reserve equivalent to the cost of treasury shares held are not available for distribution.

e) Other comprehensive income

The disaggregation of changes of other comprehensive income by each type of reserve in equity is shown below:

	<i>Cumulative changes in fair values</i>	<i>Foreign currency translation reserve</i>	<i>Non-controlling interests</i>	<i>Total</i>
2017	KD	KD	KD	KD
Net unrealised income on financial assets available-for-sale	2,548	-	-	2,548
Transfer to consolidated income statement on sale of financial assets available-for-sale	(5,819)	-	-	(5,819)
Transfer to consolidated income statement on impairment of financial assets available-for-sale	2,070	-	-	2,070
Foreign currency translation adjustments	-	(339)	(95)	(434)
Share of other comprehensive income of associates	210	-	-	210
Realised loss on derecognition of an associate in a merger transaction	258	-	-	258
Realised loss on derecognition of an subsidiary in a merger transaction	270	-	-	270
	(463)	(339)	(95)	(897)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

18 SHARE CAPITAL, RESERVES AND DIVIDENDS (Continued)

e) Other comprehensive income (Continued)

	<i>Cumulative changes in fair values</i>	<i>Foreign currency translation reserve</i>	<i>Non-controlling interests</i>	<i>Total</i>
<i>2016</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Net unrealised income (loss) on financial assets available-for-sale	203	-	(62)	141
Transfer to consolidated income statement on sale of financial assets available for sale	448	-	16	464
Transfer to consolidated income statement on impairment of financial assets available for sale	6,009	-	121	6,130
Foreign currency translation adjustments	-	122	60	182
Transfer to consolidated income statement on liquidation of a subsidiary	-	(140)	-	(140)
Share of other comprehensive loss of associates	(83)	-	-	(83)
	6,577	(18)	135	6,694

f) Dividends

On 7 March 2018, the Board of Directors of the Parent Company proposed the distribution of cash dividend from the retained earnings representing 7% of the paid up share capital for the financial year ended 31 December 2017 amounting to KD 5,624 thousand. This proposal is subject to the approval of the Parent Company's shareholders at the AGM. On 1 June 2017, the AGM of the shareholders of the Parent Company approved the distribution of cash dividend from the statutory reserve representing 5% (2015: Nil) of the paid up share capital for the financial year ended 31 December 2016 amounting to KD 4,205 thousand (2015 : Nil).

19 TRANSACTIONS WITH RELATED PARTIES

Related parties represent associated companies, managed funds, 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 Parent Company's management.

<i>2017</i>	<i>Associates</i>	<i>Other related parties</i>	<i>Total</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
<i>Transactions included in consolidated income statement</i>			
Management and advisory fees	8	2,155	2,163
Rental income	55	-	55
<i>Consolidated statement of financial position</i>			
Other assets	-	2,290	2,290

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

19 TRANSACTIONS WITH RELATED PARTIES (Continued)

2016	Associates KD'000	Other related parties KD'000	Total KD'000
<i>Transactions included in consolidated income statement</i>			
Management and advisory fees	6	1,767	1,773
Rental income	52	-	52
<i>Consolidated statement of financial position</i>			
Other assets	-	1,899	1,899
Accounts payable and accruals	465	-	465

Compensation of key management personnel

The remuneration of key management personnel of the Group during the year were as follows:

	2017 KD 000's	2016 KD 000's
Salaries and short-term benefits	901	821
Employees' end of service benefits	149	109
	1,050	930

Directors' remuneration for the year ended 31 December 2017 amounted to KD 185 thousand (2016: Nil) and is subject to approval of shareholders in the Annual General Meeting (AGM).

20 MATERIAL PARTLY-OWNED SUBSIDIARIES

The Group has concluded that Al Seef and Al Mada are the only subsidiaries with non-controlling interests that are material to the Group. Financial information of subsidiaries that have material non-controlling interests is provided below:

Accumulated balances of material non-controlling interests:

	2017 KD 000's	2016 KD 000's
Al Seef	-	2,950
Al Mada	5,405	6,101

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

20 MATERIAL PARTLY-OWNED SUBSIDIARIES (Continued)

Summarised income statement for the year ended 31 December:

	2017	2016	
	<i>Al Mada</i> KD 000's	<i>Al Seef</i> KD 000's	<i>Al Mada</i> KD 000's
Revenue	419	1,467	1,463
Expenses	184	992	197
Profit for the year	235	475	1,266
Total comprehensive income	235	619	1,266
Attributable to non-controlling interests:			
Profit for the year	114	248	669
Other comprehensive (loss) income	(95)	75	60
	19	323	729

Summarised statement of financial position as at 31 December:

	2017	2016	
	<i>Al Mada</i> KD 000's	<i>Al Seef</i> KD 000's	<i>Al Mada</i> KD 000's
Total assets	10,585	6,999	12,206
Total liabilities	89	1,341	329
Total equity	10,496	5,658	11,877
Attributable to:			
Equity holders of the Parent Company	5,091	2,708	5,776
Non-controlling interests	5,405	2,950	6,101
	10,496	5,658	11,877

Summarised cash flow information for year ended 31 December:

	2017	2016	
	<i>Al Mada</i> KD 000's	<i>Al Seef</i> KD 000's	<i>Al Mada</i> KD 000's
Operating	1,817	1,029	452
Investing		(444)	-
Financing	(1,674)	(1)	(558)
Net increase (decrease) in cash and cash equivalents	143	584	(106)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

21 SEGMENT INFORMATION

For management purposes the Group is organised into four major business segments. The principal activities and services under these segments are as follows:

- Investment segment represents trading in equities including investment in associates and other strategic investments;
- Treasury segment represents liquidity management and trading in foreign currencies;
- Real estate segment represents buying, selling and investing in real estate;
- Asset management and advisory segment represents managing discretionary and non-discretionary investment portfolios, managing of investment funds, and providing advisory and other related financial services.

Management monitors the operating segment separately for the purpose of making decision about the resource allocation and performance assessment. The segment performance is evaluated based on segment result before taxes in management and reporting system.

The following table presents revenue, results for the year and total assets and total liabilities information regarding the Group's reportable segments.

2017

	<i>Investment</i> <i>KD 000's</i>	<i>Treasury</i> <i>KD 000's</i>	<i>Real</i> <i>estate</i> <i>KD 000's</i>	<i>Asset</i> <i>management</i> <i>and advisory</i> <i>KD 000's</i>	<i>Unallocated</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Segment revenues	14,991	192	2,655	3,001	-	20,839
Segment results	7,886	(384)	476	3,033	-	11,011
Segment impairment losses and provisions	3,659	-	185	(1,142)	-	2,702
Segment assets	153,763	3,684	34,914	594	640	193,595
Segment liabilities	1,260	9	6,888	119	5,997	14,273
Commitments and contingencies	3,388	-	344	73	14	3,819

2016

	<i>Investment</i> <i>KD 000's</i>	<i>Treasury</i> <i>KD 000's</i>	<i>Real</i> <i>estate</i> <i>KD 000's</i>	<i>Asset</i> <i>management</i> <i>and advisory</i> <i>KD 000's</i>	<i>Unallocated</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Segment revenues	7,559	328	263	2,463	-	10,613
Segment results	(3,225)	(186)	(1,220)	1,570	-	(3,061)
Segment impairment losses and provisions	7,002	-	33	-	-	7,035
Segment assets	155,152	6,487	33,953	543	576	196,711
Segment liabilities	1,486	946	6,887	2,066	5,135	16,520
Commitments and contingencies	1,898	-	673	73	19	2,663

The Group does not have any inter-segment transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

21 SEGMENT INFORMATION (Continued)

Geographic information

	2017 KD	2016 KD
Total income from external sources		
Kuwait and GCC	19,724	9,793
International	1,115	820
	20,839	10,613

The income information above is based on the location of the customer.

22 COMMITMENTS AND CONTINGENT LIABILITIES

a) Bank guarantees

As at the reporting date, the Group has contingent liabilities in respect of bank guarantees amounting to KD 352 thousand (2016: KD 1,057 thousand) arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

b) Operating lease rental commitments – Group as a lessor

The Group has entered into operating leases on its investment properties. These leases have terms of between 1 and 5 years.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are, as follows:

	2017 KD 000's	2016 KD 000's
Future minimum lease receipts:		
Within one year	1,486	1,574
Within one to two years	1,367	1,323
Within two to five years	2,078	2,284

c) Capital expenditure commitments

At 31 December 2017, the Company had a maximum commitment on capital expenditures related to purchase of investments, renovation of investment properties and purchase of property and equipment amounting to KD 3,467 thousand (2016: KD 1,606 thousand) extending beyond one accounting period.

23 FIDUCIARY ACCOUNTS

The Parent Company manages portfolios on behalf of others and maintains cash balances and securities in fiduciary accounts without recourse to the Group and funds which are not included in the consolidated statement of financial position. As at the reporting date, total fiduciary assets managed by the Parent Company amounted to KD 1,022,042 thousand (2016: KD 1,521,208 thousand). The total income earned from funds and other fiduciary activities amounted to KD 2,962 thousand (2016: KD 2,409 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

24 DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments traded by the Group are forward foreign exchange contracts.

Forward foreign exchange contracts

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts for the year ended 31 December 2017 and 2016. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are not indicative of the credit risk.

2017	Positive fair value	Negative fair value	Notional amount total
	KD 000's	KD 000's	KD 000's
Forward foreign exchange contracts	<u>7</u>	<u>9</u>	<u>3,033</u>

As at 31 December 2016, the Group did not had any outstanding derivative positions.

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group's principal financial liabilities, other than derivatives, comprise due to banks and accounts payable and accruals. The main purpose of these financial liabilities is to fund the Group's operations. The Group has various financial assets such as cash and balances with banks and financial institutions, quoted and unquoted financial instruments and other assets which arise directly from its operations.

The Group classifies the risks faced as part of its monitoring and controlling activities into certain categories of risks and accordingly specific responsibilities have been given to various officers for the identification, measurement, control and reporting of these identified categories of risks. The categories of risks are:

- A. Risks arising from financial instruments:
 - i. Credit risk which includes default risk of clients and counterparties
 - ii. Liquidity risk
 - iii. Market risk which includes interest rate, foreign exchange and equity price risks
- B. Other risks
 - i. Prepayment risk
 - ii. Operational risk which includes risks due to operational failures

The Parent Company's Board of Directors is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

25.1 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's 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 lending activities.

The table below shows the maximum exposure to credit risk across financial assets:

	2017 <i>KD 000's</i>	<i>2016</i> <i>KD 000's</i>
Balances with banks and other financial institutions	7,112	15,180
Other assets	9,784	3,928
Total	16,896	19,108

The exposures set above, are based on net carrying amounts as reported in the consolidated statement of financial position. The Group's maximum exposure is equal to the carrying amount of these balances. The maximum credit exposure to a single counter party is KD 1,659 thousand (2016: KD 3,853 thousand).

The Group does not have any collateral or other credit enhancements against any of the financial assets at 31 December 2017 and 31 December 2016.

Risk concentration of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The table below illustrates the maximum exposure to credit risk for the components of the consolidated statement of financial position analysed by geographical sector:

2017	<i>Kuwait</i> <i>KD 000's</i>	<i>GCC & Arab</i> <i>KD 000's</i>	<i>International</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Assets				
Balances with banks and financial institutions	5,134	1,793	185	7,112
Other assets	7,963	1,821	-	9,784
Total credit risk exposure	13,097	3,614	185	16,896
2016	<i>Kuwait</i> <i>KD 000's</i>	<i>GCC & Arab</i> <i>KD 000's</i>	<i>International</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Assets				
Balances with banks and financial institutions	7,598	5,382	2,200	15,180
Other assets	1,992	1,936	-	3,928
Total credit risk exposure	9,590	7,318	2,200	19,108

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**25.1 Credit risk (Continued)**

The table below illustrates the maximum exposure to credit risk for the components of the consolidated statement of financial position analysed by industry sector:

2017	<i>Banks and other financial institutions</i> KD 000's	<i>Construction and real estate</i> KD 000's	<i>Other</i> KD 000's	<i>Total</i> KD 000's
Assets				
Balances with banks and financial institutions	7,112	-	-	7,112
Other assets	7,012	2,721	51	9,784
Total credit risk exposure	14,124	2,721	51	16,896
2016	<i>Banks and other financial institutions</i> KD 000's	<i>Construction and real estate</i> KD 000's	<i>Other</i> KD 000's	<i>Total</i> KD 000's
Assets				
Balances with banks and financial institutions	15,180	-	-	15,180
Other assets	2,653	187	1,088	3,928
Total credit risk exposure	17,833	187	1,088	19,108

Analysis of past due but not impaired

The Group did not have any "past due but not impaired" financial assets at 31 December 2017 and 31 December 2016.

25.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk is managed by the treasury department of the Parent Company. To manage this risk, the Group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realisable. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The table below summarises the maturity profile of the Group's liabilities based on contractual undiscounted repayment obligations.

The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities. The liquidity profile of financial liabilities is as follows:

2017	<i>Within 3 months</i> KD 000's	<i>3 to 12 months</i> KD 000's	<i>Over one year</i> KD 000's	<i>Total</i> KD 000's
Due to banks	59	6,720	-	6,779
Accounts payable and accruals	4,834	-	2,696	7,530
Total liabilities	4,893	6,720	2,696	14,309
Capital commitment and contingent liabilities	40	1,878	1,901	3,819

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

25.2 Liquidity risk (Continued)

2016	<i>Within 3 months KD 000's</i>	<i>3 to 12 months KD 000's</i>	<i>Over one year KD 000's</i>	<i>Total KD 000's</i>
Due to banks	2,636	5,113	-	7,749
Accounts payable and accruals	5,825	-	2,976	8,801
Total liabilities	8,461	5,113	2,976	16,550
Capital commitment and contingent liabilities	996	1,612	55	2,663

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for financial assets at fair value through profit or loss and financial assets available-for-sale is determined based on management's estimate of liquidation of those financial assets. The actual maturities may differ from the maturities shown below since borrowers may have the right to prepay obligations with or without prepayment penalties.

2017	<i>Within 3 months KD 000's</i>	<i>3 to 12 months KD 000's</i>	<i>Over one year KD 000's</i>	<i>Total KD 000's</i>
Assets				
Cash and balances with banks and financial institutions	7,120	-	-	7,120
Financial assets at fair value through profit or loss	20,049	-	-	20,049
Trading properties	477	-	-	477
Financial asset available-for-sale	-	-	91,159	91,159
Investments in associates	-	-	33,141	33,141
Investment properties	-	-	31,266	31,266
Other assets	10,131	-	252	10,383
Total assets	37,777	-	155,818	193,595

2017	<i>Within 3 months KD 000's</i>	<i>3 to 12 months KD 000's</i>	<i>Over one year KD 000's</i>	<i>Total KD 000's</i>
Liabilities				
Due to banks	5,503	1,200	-	6,703
Accounts payable and accruals	4,874	-	2,696	7,570
Total liabilities	10,377	1,200	2,696	14,273

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**25.2 Liquidity risk (Continued)**

2016	Within 3 months KD 000's	3 to 12 months KD 000's	Over one year KD 000's	Total KD 000's
Assets				
Cash and balances with banks and financial institutions	15,192	-	-	15,192
Financial assets at fair value through profit or loss	20,252	-	-	20,252
Trading properties	620	-	-	620
Financial asset available-for-sale	-	-	100,678	100,678
Investments in associates	-	-	22,357	22,357
Investment properties	-	-	32,632	32,632
Other assets	4,193	-	356	4,549
Goodwill	-	-	431	431
Total assets	40,257	-	156,454	196,711

2016	Within 3 months KD 000's	3 to 12 months KD 000's	Over one year KD 000's	Total KD 000's
Liabilities				
Due to banks	6,580	1,073	-	7,653
Accounts payable and accruals	5,891	-	2,976	8,867
Total liabilities	12,471	1,073	2,976	16,520

25.3 Market risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates, foreign exchange rates, and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

25.3.1 Foreign currency risk

The Group mainly operates in the Gulf Cooperation Council (GCC) and the United States of America (USA) and as a result is exposed to changes in exchange rates of the US Dollar, Euro, UAE Dirhams, Saudi Riyals and Qatari Riyals. The Group's consolidated statement of financial position can be significantly affected by the movement in these currencies. To mitigate the Group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

25.3 Market risk (Continued)

25.3.1 Foreign currency risk (Continued)

Foreign currency risk is managed on the basis of limits determined by the Parent Company's Board of Directors and a continuous assessment of the Groups' open positions.

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its assets and liabilities. The analysis calculates the effect of a 5% change in currency rate against the Kuwaiti Dinar, with all other variables held constant on the result and other comprehensive income.

<i>Currency</i>	<i>Increase / (decrease) in rate to the KD</i>	<i>Effect on result 2017 KD 000's</i>	<i>Effect on other comprehensive income 2017 KD 000's</i>	<i>Effect on result 2016 KD 000's</i>	<i>Effect on other comprehensive income 2016 KD 000's</i>
Euro	+5%	18	72	2	60
	-5%	(18)	(72)	(62)	-
US Dollar	+5%	200	611	157	796
	-5%	(463)	(348)	(541)	(412)
Qatari Riyal	+5%	4	98	3	130
	-5%	(4)	(98)	(3)	(130)
Saudi Riyal	+5%	41	897	195	721
	-5%	(98)	(840)	(392)	(524)
UAE Dirham	+5%	11	405	24	345
	-5%	(76)	(339)	(24)	(345)

25.3.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's due to banks with floating interest rates.

The Group's policy is to manage its interest cost by availing competitive credit facilities from the local and regional financial institutions and constantly monitoring interest rate fluctuations.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the Group's result before taxation for one year, based on the interest rate sensitive financial assets and liabilities held at 31 December. There is no direct impact on other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

25.3 Market risk (Continued)

25.3.2 Interest rate risk (Continued)

	<i>Increase/decrease in basis points</i>	<i>Effect on result for the year KD 000's</i>
<i>2017</i>		
KD	+25	(3)
KD	-25	3
<i>2016</i>		
KD	+25	(2)
KD	-25	2

25.3.3 Equity price risk

Equity price risk arises from changes in the fair values of equity investments. The Group manages this through diversification of investments in terms of industry concentration. The majority of the Group's quoted investments are listed on the Kuwait Stock Exchange.

The effect on other comprehensive income (as a result of a change in the fair value of financial assets available-for-sale at 31 December) and Group's results (as a result of a change in the fair value of financial assets at fair value through profit or loss at 31 December) due to a 5% change in market indices, with all other variables held constant is as follows:

	<i>2017</i>		<i>2016</i>	
	<i>Effect on other comprehensive income KD 000's</i>	<i>Effect on result KD 000's</i>	<i>Effect on other comprehensive income KD 000's</i>	<i>Effect on result KD 000's</i>
<i>Market indices</i>				
Kuwait	1,313	722	1,420	506
Others	818	375	472	418

25.4 Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The Group is not exposed to significant prepayment risk.

25.5 Operation risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

26 FAIR VALUE MEASUREMENT

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December:

	<i>Date of valuation</i>	Fair value measurement using			
		<i>Total</i> KD 000's	<i>Quoted prices in active markets (Level 1)</i> KD 000's	<i>Significant observable inputs (Level 2)</i> KD 000's	<i>Significant unobservable inputs (Level 3)</i> KD 000's
2017					
Assets measured at fair value					
<i>Financial assets at fair value through profit or loss:</i>					
Local quoted securities	31 December 2017	11,957	11,957	-	-
Foreign quoted securities	31 December 2017	8,092	8,092	-	-
<i>Financial assets available for sale:</i>					
Quoted equity investments	31 December 2017	41,252	41,252	-	-
Unquoted mutual fund Investments (investing in quoted securities)	31 December 2017	26,578	-	26,578	-
Unquoted equity investments	31 December 2017	23,329	-	-	23,329
<i>Investment properties</i>	31 December 2017	31,266	-	-	31,266
Assets measured at cost while fair value is disclosed					
<i>Trading properties</i>	31 December 2017	634	-	634	-
		143,108	61,301	27,212	54,595
2016					
Assets measured at fair value					
<i>Financial assets at fair value through profit or loss:</i>					
Local quoted securities	31 December 2016	10,200	10,200	-	-
Foreign quoted securities	31 December 2016	10,052	10,052	-	-
<i>Financial assets available for sale:</i>					
Quoted equity investments	31 December 2016	39,156	39,156	-	-
Unquoted mutual fund Investments (investing in quoted securities)	31 December 2016	29,461	-	29,461	-
<i>Investment properties</i>	31 December 2016	32,632	-	-	32,632
Assets measured at cost while fair value is disclosed					
<i>Trading properties</i>	31 December 2016	780	-	780	-
		122,281	59,408	30,241	32,632

The fair value of the above investment securities is categorised as per the policy on fair value measurement in Note 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

26 FAIR VALUE MEASUREMENT (Continued)

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets and liabilities which are recorded at fair value.

	<i>As at 1 January KD 000's</i>	<i>Gain / (loss) recorded in the consolidated income statement KD 000's</i>	<i>Gain / (loss) recorded in other comprehensive income KD 000's</i>	<i>Net purchases, transfer, sales and settlements KD 000's</i>	<i>As at 31 December KD 000's</i>
2017					
Financial assets available- for-sale:					
Unquoted equity investments	-	-	-	23,329	23,329
<i>Investment properties</i>	32,632	229	-	(1,595)	31,266
	32,632	229	-	21,734	54,595
2016					
Financial assets available- for-sale:					
Unquoted equity investments	1,935	-	-	(1,935)	-
<i>Investment properties</i>	32,140	(1,692)	-	2,184	32,632
	34,075	(1,692)	-	249	32,632

As at 31 December 2016, the Group's unquoted equity investments amounting to KD 32,601 thousand were carried at cost less impairment. During 2017, the Group arrived at a reliable fair value of these investments based on suitable valuation methods and recent available financial information. The fair value of these investments was categorised in level 3 of the fair value hierarchy as at 31 December 2017.

Description of significant unobservable inputs to valuation of financial assets:

Fair values of unquoted equity investments are derived through a market approach which utilises price multiples of relevant sectors and comparable quoted companies. The Group also uses net book value method using latest available financial statements of the investee entity, wherein the underlying assets are fair valued. A lack of marketability discount is applied on the fair values derived through this approach and is based on the management's judgment.

Description of significant unobservable inputs to valuation of non-financial assets:

For the purpose of measuring fair value of investment properties, the income approach is used where the present value technique is employed to reflect the current market expectations about the future estimated rental value (significant unobservable valuation input), based on per square meter per month rental rate in the country in which the properties are located.

The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the investment properties were altered by 5%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at and for the year ended 31 December 2017

26 FAIR VALUE MEASUREMENT (Continued)

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

Other financial assets and liabilities are carried at amortised cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are re-priced immediately based on market movement in interest rates. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated using valuation techniques incorporating certain assumptions such as credit spreads that are appropriate in the circumstances.

27 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its 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 dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2017 and 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, due to banks, accounts payable and accruals less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Parent Company less cumulative changes in fair value.

	2017 <i>KD 000's</i>	<i>2016</i> <i>KD 000's</i>
Due to banks	6,703	7,653
Accounts payable and accruals	7,570	8,867
Less: Cash and balances with banks and financial institutions	(7,120)	(15,192)
Net debt	7,153	1,328
Equity attributable to the equity holders of the Parent Company	173,912	171,136
Less: Cumulative changes in fair values	(3,167)	(3,630)
Total capital	170,745	167,506
Capital and net debt	177,898	168,834
Gearing ratio	4%	1%