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.

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)

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

7 March 2018
Kuwait

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		**11,011**	(3,061)
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:			
Items that are or may be reclassified in subsequent periods to the consolidated income statement			
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	*Share premium*	*Statutory reserve*	*Treasury shares*	*Treasury shares reserve*	*Foreign currency translation reserve*	*Cumulative changes in fair value*	*Retained earnings (accumulated losses)*	*Sub-total*	*Non-controlling interests*	*Total*
	KD 000's	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*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)
Changes in operating assets and liabilities			
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

	Notes	***2017 KD 000's***	*2016 KD 000's*
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		**(4,109)**	5,208
Cash and cash equivalents at 1 January		**12,622**	7,414
Less: cash and cash equivalents on deconsolidation of a subsidiary		**(1,393)**	-
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**7,120**	12,622

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

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.

2.2 BASIS OF CONSOLIDATION (Continued)

Details of material subsidiary companies are as follows:

Name	*Country of Incorporation*	***% Holding 2017***	*% Holding 2016*	***Principal activities***
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.

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.

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.

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

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 valuators 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 valuators.

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.

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.

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	*2016*
	KD 000's	*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	*2016*
	KD 000's	*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	*2016*
	KD 000's	*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 SupportTax (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

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:

Name of company	*Interest in equity*		*Country of registration*	*Principal activities*
	2017	*2016*		
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'.

13 INVESTMENT IN ASSOCIATES (Continued)

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

	2017	*2016*
	KD 000's	*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	*2016*
	KD 000's	*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	*2016*
	KD 000's	*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	*2016*
	KD 000's	*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	*2016*
	KD 000's	*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:	***Investment properties***	
	Resort	***Buildings***
	KD 000's	***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.

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 DUE TO 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:

2017	*Cumulative changes in fair values* KD	*Foreign currency translation reserve* KD	*Non-controlling interests* KD	*Total* 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 transation	258	-	-	**258**
Realised loss on derecognition of an subsidairy in a merger transation	270	-	-	**270**
	(463)	**(339)**	**(95)**	**(897)**

18 SHARE CAPITAL, RESERVES AND DIVIDENDS (Continued)

e) Other comprehensive income (Continued)

2016	*Cumulative changes in fair values* *KD*	*Foreign currency translation reserve* *KD*	*Non-controlling interests* *KD*	*Total* *KD*
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.

2017	***Associates***	***Other related parties***	***Total***
	KD'000	***KD'000***	***KD'000***
Transactions included in consolidated income statement			
Management and advisory fees	**8**	**2,155**	**2,163**
Rental income	**55**	**-**	**55**
Consolidated statement of financial position			
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*	*Other related parties*	*Total*
	KD'000	*KD'000*	*KD'000*
Transactions included in consolidated income statement			
Management and advisory fees	6	1,767	1,773
Rental income	52	-	52
Consolidated statement of financial position			
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	*2016*
	KD 000's	*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	*2016*
	KD 000's	*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.

20 MATERIAL PARTLY-OWNED SUBSIDIARIES (Continued)

Summarised income statement for the year ended 31 December:

	2017	*2016*	
	Al Mada	*Al Seef*	*Al Mada*
	KD 000's	*KD 000's*	*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*	
	Al Mada	*Al Seef*	*Al Mada*
	KD 000's	*KD 000's*	*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*	
	Al Mada	*Al Seef*	*Al Mada*
	KD 000's	*KD 000's*	*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

	Investment	***Treasury***	***Real estate***	***Asset management and advisory***	***Unallocated***	***Total***
	KD 000's	***KD 000's***	***KD 000's***	***KD 000's***	***KD 000's***	***KD 000's***
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

	Investment	*Treasury*	*Real estate*	*Asset management and advisory*	*Unallocated*	*Total*
	KD 000's	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
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.

21 SEGMENT INFORMATION (Continued)

Geographic information

	2017	*2016*
	KD	*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	*2016*
	KD 000's	*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	7	9	3,033

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.

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	*2016*
	KD 000's	*KD 000's*
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	***Kuwait***	***GCC & Arab***	***International***	***Total***
	KD 000's	***KD 000's***	***KD 000's***	***KD 000's***
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	*Kuwait*	*GCC & Arab*	*International*	*Total*
	KD 000's	*KD 000's*	*KD 000's*	*KD 000's*
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	*Banks and other financial institutions*	*Construction and real estate*	*Other*	*Total*
	KD 000's	*KD 000's*	*KD 000's*	*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	*Banks and other financial institutions*	*Construction and real estate*	*Other*	*Total*
	KD 000's	*KD 000's*	*KD 000's*	*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	*Within 3 months*	*3 to 12 months*	*Over one year*	*Total*
	KD 000's	*KD 000's*	*KD 000's*	*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**

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

25.2 Liquidity risk (Continued)

2016	*Within 3 months*	*3 to 12 months*	*Over one year*	*Total*
	KD 000's	*KD 000's*	*KD 000's*	*KD 000's*
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	***Within 3 months***	***3 to 12 months***	***Over one year***	***Total***
	KD 000's	***KD 000's***	***KD 000's***	***KD 000's***
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	***Within 3 months***	***3 to 12 months***	***Over one year***	***Total***
	KD 000's	***KD 000's***	***KD 000's***	***KD 000's***
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*	*3 to 12 months*	*Over one year*	*Total*
	KD 000's	*KD 000's*	*KD 000's*	*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*	*3 to 12 months*	*Over one year*	*Total*
	KD 000's	*KD 000's*	*KD 000's*	*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.

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.

Currency	*Increase / (decrease) in rate to the KD*	*Effect on result 2017 KD 000's*	*Effect on other comprehensive income 2017 KD 000's*	*Effect on result 2016 KD 000's*	*Effect on other comprehensive income 2016 KD 000's*
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)

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

	2017		*2016*	
Market indices	***Effect on other comprehensive income KD 000's***	***Effect on result KD 000's***	*Effect on other comprehensive income KD 000's*	*Effect on result KD 000's*
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.

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:

			Fair value measurement using		
	Date of valuation	*Total*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*
		KD 000's	*KD 000's*	*KD 000's*	*KD 000's*
2017					
Assets measured at fair value					
Financial assets at fair value through profit or loss:					
Local quoted securities	31 December 2017	**11,957**	**11,957**	-	-
Foreign quoted securities	31 December 2017	**8,092**	**8,092**	-	-
Financial assets available for sale:					
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**
Investment properties	31 December 2017	**31,266**	-	-	**31,266**
Assets measured at cost while fair value is disclosed					
Trading properties	31 December 2017	**634**	-	**634**	-
		143,108	**61,301**	**27,212**	**54,595**
2016					
Assets measured at fair value					
Financial assets at fair value through profit or loss:					
Local quoted securities	31 December 2016	10,200	10,200	-	-
Foreign quoted securities	31 December 2016	10,052	10,052	-	-
Financial assets available for sale:					
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	-
Investment properties	31 December 2016	32,632	-	-	32,632
Assets measured at cost while fair value is disclosed					
Trading properties	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.

	As at 1 January	*Gain / (loss) recorded in the consolidated income statement*	*Gain / (loss) recorded in other comprehensive income*	*Net purchases, transfer, sales and settlements*	*As at 31 December*
	KD 000's	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
2017					
Financial assets available- for-sale:					
Unquoted equity investments	-	-	-	**23,329**	**23,329**
Investment properties	**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)	-
Investment properties	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%.

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 ***KD 000's***	*2016* *KD 000's*
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%