

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

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

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

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 Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, and its executive regulations, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016 and its executive regulations, or of the Parent Company's Memorandum of Incorporation and Articles of Association as amended, have occurred during the year ended 31 December 2016, 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 material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, or of the provisions of Law No. 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2016 that might have had a material effect on the business of the Parent Company or on its financial position.



WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

16 April 2017
Kuwait



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

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	<i>Notes</i>	2016 KD 000's	<i>2015</i> <i>KD 000's</i>
INCOME			
Realised loss on financial assets at fair value through profit or loss		(1,533)	(679)
Unrealised gain (loss) on financial assets at fair value through profit or loss		2,120	(3,235)
Realised gain on financial assets available-for-sale		1,439	1,180
Realised gain on sale of trading properties	11	-	943
Change in fair value of investment properties	14	(1,692)	(1,457)
Rental income	14	1,924	1,774
Dividend income	3	4,183	3,668
Management, brokerage and advisory fees		4,164	3,913
Interest income		6	14
Share of results of associates	13	(435)	226
Gain on foreign exchange trading		326	302
Other income	4	111	12,886
TOTAL INCOME		10,613	19,535
EXPENSES			
Finance costs		422	381
Administrative expenses	5	6,196	5,986
Impairment losses and other provisions	6	7,035	20,056
(Loss) gain on foreign currency translation		21	(424)
TOTAL EXPENSES		13,674	25,999
LOSS FOR THE YEAR BEFORE TAXATION AND DIRECTORS' REMUNERATION			
		(3,061)	(6,464)
Taxation	7	-	(132)
LOSS FOR THE YEAR		(3,061)	(6,596)
Attributable to:			
Equity holders of the Parent Company		(3,978)	(5,574)
Non-controlling interests	20	917	(1,022)
		(3,061)	(6,596)
BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY	8	(5) fils	(7) 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 2016

	Notes	2016 KD 000's	2015 KD 000's
Loss for the year		(3,061)	(6,596)
Other comprehensive loss:			
<i>Other comprehensive income/(loss) to be reclassified to consolidated income statement in subsequent periods</i>			
Net unrealised income (loss) on financial assets available-for-sale	18 (e)	141	(20,573)
Foreign currency translation adjustments	18 (e)	182	675
Share of other comprehensive loss of associates	13 & 18 (e)	(83)	(230)
<i>Total other comprehensive income/ (loss) to be reclassified to consolidated income statement in subsequent periods</i>			
		240	(20,128)
Transfer to consolidated income statement on sale of financial assets available for sale	18 (e)	464	405
Transfer to consolidated income statement on impairment of financial assets available for sale	18 (e)	6,130	17,060
Transfer to consolidated income statement on liquidation of a subsidiary		(140)	-
Other comprehensive income (loss) for the year		6,694	(2,663)
Total comprehensive income (loss) for the year		3,633	(9,259)
Attributable to:			
Equity holders of the Parent Company		2,581	(8,340)
Non-controlling interest		1,052	(919)
		3,633	(9,259)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 KD 000's	2015 KD 000's
ASSETS			
Cash and balances with banks and financial institutions	9	15,192	9,656
Financial assets at fair value through profit or loss	10	20,252	20,926
Trading properties	11	620	614
Financial assets available-for-sale	12	100,678	98,828
Investment in associates	13	22,357	25,444
Investment properties	14	32,632	32,140
Other assets	15	4,549	5,472
Goodwill		431	431
TOTAL ASSETS		196,711	193,511
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	16	7,653	6,682
Accounts payable and accruals	17	8,867	9,033
TOTAL LIABILITIES		16,520	15,715
EQUITY			
Share capital	18	87,621	87,621
Share premium	18	49,593	49,593
Statutory reserve	18	16,721	16,721
Treasury shares	18	(5,411)	(4,986)
Treasury shares reserve		26,546	26,546
Foreign currency translation reserve		255	273
Cumulative changes in fair value		3,630	(2,947)
Accumulated losses		(7,819)	(3,841)
Equity attributable to the equity holders of the Parent Company		171,136	168,980
Non-controlling interests	20	9,055	8,816
TOTAL EQUITY		180,191	177,796
TOTAL LIABILITIES AND EQUITY		196,711	193,511

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 2016

Attributable to equity holders of the Parent Company

	Share capital KD 000's	Share premium KD 000's	Statutory reserve KD 000's	Treasury shares KD 000's	Treasury shares reserve KD 000's	Foreign currency translation reserve KD 000's	Cumulative changes in fair value KD 000's	Accumulated losses KD 000's	Sub-total KD 000's	Non-controlling interests KD 000's	Total KD 000's
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
As at 1 January 2015	87,621	49,593	16,721	(3,433)	26,546	(125)	217	6,817	183,957	10,601	194,558
Loss for the year	-	-	-	-	-	-	-	(5,574)	(5,574)	(1,022)	(6,596)
Other comprehensive income (loss) for the year	-	-	-	-	-	398	(3,164)	-	(2,766)	103	(2,663)
Total comprehensive income (loss) for the year	-	-	-	-	-	398	(3,164)	(5,574)	(8,340)	(919)	(9,259)
Purchase of treasury shares	-	-	-	(1,553)	-	-	-	-	(1,553)	-	(1,553)
Dividend paid (Note 18)	-	-	-	-	-	-	-	(5,084)	(5,084)	-	(5,084)
Movement in non-controlling interests	-	-	-	-	-	-	-	-	-	(866)	(866)
As at 31 December 2015	87,621	49,593	16,721	(4,986)	26,546	273	(2,947)	(3,841)	168,980	8,816	177,796

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 KD 000's	2015 KD 000's
OPERATING ACTIVITIES			
Loss for the year before taxation		(3,061)	(6,464)
Adjustments for:			
Unrealised (gain) loss on financial assets at fair value through profit or loss		(2,120)	3,235
Realised gain on financial assets available-for-sale		(1,439)	(1,180)
Change in fair value of investment properties	14	1,692	1,457
Dividend income	3	(4,183)	(3,668)
Interest income		(6)	(14)
Share of results of associates	13	435	(226)
Finance costs		422	381
Depreciation		158	112
Impairment losses	6	7,035	20,056
Other income	4	(111)	(12,886)
		(1,178)	803
<i>Changes in operating assets and liabilities</i>			
Financial assets at fair value through profit or loss		2,794	4,118
Other assets		706	1,693
Trading properties		-	559
Accounts payable and accruals		(81)	(990)
Cash from operations		2,241	6,183
Interest income received		6	14
Tax paid		-	(259)
Directors' remuneration paid		-	(72)
Net cash flows from operating activities		2,247	5,866
INVESTING ACTIVITIES			
Liquidation proceeds of associates		1,453	-
Purchase of associate company		(325)	(2,164)
Purchase of financial assets available-for-sale		(24,397)	(26,455)
Proceeds from sale of financial assets available-for-sale		24,591	21,536
Purchase of investment properties	14	(2,184)	(8,544)
Dividend from associates	13	636	156
Dividend income received		4,180	3,797
Net cash flows from (used in) investing activities		3,954	(11,674)

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 2016

	<i>Notes</i>	2016 <i>KD 000's</i>	<i>2015</i> <i>KD 000's</i>
FINANCING ACTIVITIES			
Short term borrowing availed		643	1,430
Purchase of treasury shares		(425)	(1,553)
Finance costs paid		(398)	(354)
Dividend paid	18	-	(5,084)
Movement in non-controlling interests		(813)	(866)
Net cash flows used in financing activities		(993)	(6,427)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		7,414	19,649
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	12,622	7,414

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

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 2016 were authorised for issue in accordance with a resolution of the Parent Company's Board of Directors on 16 April 2017 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 24 April 2016 approved the Group's consolidated financial statements for the year ended 31 December 2015.

Details of subsidiaries are given in Note 2.2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

1 CORPORATE INFORMATION (continued)

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 which cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 November 2012. The new Executive Regulations of Law No. 1 of 2016 was issued on 12 July 2016 and was published in the Official Gazette on 17 July 2016 which cancelled the Executive Regulations of Law No. 25 of 2012.

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 2016. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

2.2 BASIS OF CONSOLIDATION (continued)

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.

Details of material subsidiary companies are as follows:

<i>Name</i>	<i>Country of Incorporation</i>	<i>% Holding 2016</i>	<i>% Holding 2015</i>	<i>Principal activities</i>
International Infrastructure Holding Co. K.S.C. (Closed)	Kuwait	99	99	Investments
Gulf Investments Company EC ("GIC") (Under liquidation)*	Bahrain	99	99	Investments
National Investment Company S.A.L.	Lebanon	100	100	Property development
Al Bawaba Al Wataniya for General Trading and Contracting Company W.L.L.	Kuwait	99	99	Trading and Contracting
National Gate for Computer Systems Company K.S.C. (Closed)	Kuwait	99	99	Information technology
Sapphire International Holding Limited	British Virgin Islands	100	100	Investments
Capucin Overseas NV **	Curacao	-	100	Investments
Al Seef Financial Brokerage Company K.S.C. (Closed) ("Al Seef")	Kuwait	47.86	47.86	Financial Brokerage
Al Mada Investment Fund ("Al Mada")	Bahrain	48.63	45.33	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. During the year ended 31 December 2015, the Parent Company has received shares in an investment bank amounting to KD 8,675 thousand and in two real estate development companies amounting to KD 2,550 thousand and KD 540 thousand as liquidation proceeds from GIC. They have been recorded as other income in the consolidated income statement for the year ended 31 December 2015 (Note 4).

** During the year, liquidation of the subsidiary has been completed which resulted in a gain of KD 111 thousand recorded under 'other income' in the consolidated income statement.

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 following new and amended standards effective as of 1 January 2016:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

This amendment does not have any impact on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

2.3 CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 7 Financial Instruments: Disclosures

Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

This amendment does not have any impact on the consolidated financial statements of the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the consolidated income statement and other comprehensive income and the consolidated statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to consolidated financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

These amendments are applied retrospectively and do not have any impact on 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 adoption of this standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Group is in the process of quantifying the impact of this standard on the Group's consolidated financial statements, when adopted.

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 does not anticipate early adopting IFRS 15 and is currently evaluating its impact on its consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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 income statement.

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 currently evaluating its impact on its consolidated financial statements.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Group does not anticipate a material impact on the consolidated financial statements as all the debt instruments of the Group are measured at amortised cost.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group does not anticipate a material impact of the amendment on the consolidated financial statements.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Subsequent measurement (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued) Financial liabilities (continued)

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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, an earnings multiple, or is based on the expected cash flows of the investment 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.

Financial assets available-for-sale with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value.

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

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

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

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

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

Trading properties

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

Investment in associates

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

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

The consolidated income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the statement of comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

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 31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)

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

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

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

Investment properties

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

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

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. Where the Parent Company uses only part of a property it owns, the utilisation of the insignificant portion is regarded as immaterial, which means that the whole property is stated at market value as an investment property.

Fiduciary assets

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

Treasury shares

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Employees' end of service benefits

The Group provides employees' end of service benefits to its non-Kuwaiti 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

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.

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimation uncertainty and assumptions (continued)

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.

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.

Impairment of non-financial assets

An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of an asset's net selling price and value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. An assessment is made at each statement of financial position date to determine whether there is objective evidence that an asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated income statement.

3 DIVIDEND INCOME

	2016 KD 000's	2015 KD 000's
Financial assets at fair value through profit or loss	972	1,215
Financial assets available-for-sale	3,211	2,453
	4,183	3,668

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

4 OTHER INCOME

	2016 KD 000's	2015 KD 000's
Proceeds from liquidation of subsidiary (Note 2.2)	-	11,791
Others	111	1,095
	111	12,886

Proceeds from liquidation of subsidiary mainly comprised of shares at fair value in an investment bank amounting to KD 8,675 thousand and in two real estate development companies amounting to KD 2,550 thousand and KD 540 thousand received by the Parent Company on liquidation of GIC (Note 2.2).

5 ADMINISTRATIVE EXPENSES

	2016 KD 000's	2015 KD 000's
Staff costs	3,484	3,708
Other administrative expenses	2,554	2,166
Depreciation	158	112
	6,196	5,986

6 IMPAIRMENT LOSSES AND OTHER PROVISIONS

	2016 KD 000's	2015 KD 000's
Impairment on financial assets available for sale (Note 12)	6,130	17,060
Impairment of goodwill	-	933
Impairment of associate (Note 13)	872	250
Reversal of provisions no longer required	-	(139)
Provision for legal claims	-	1,952
Provision for rent receivables	33	-
	7,035	20,056

7 TAXATION

During the prior year ended 31 December 2015, the Company incurred tax expenses on account of an overseas subsidiary amounting to KD 132 thousand. No such expenses were incurred during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

8 BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share is computed by dividing the 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.

	2016	2015
Loss for the year attributable to equity holders of the Parent Company (KD'000)	(3,978)	(5,574)
Weighted average number of shares outstanding during the year (excluding treasury shares)	838,092,605	848,085,929
Basic and diluted loss per share attributable to the equity holders of the Parent Company	(5) fils	(7) 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:

	2016 <i>KD 000's</i>	2015 <i>KD 000's</i>
Cash and balances with banks and other financial institutions		
Less:	15,192	9,656
Due to banks maturing within 3 months of the contract date	(2,570)	(2,242)
	12,622	7,414

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 <i>KD 000's</i>	2015 <i>KD 000's</i>
<i>Financial assets held for trading:</i>		
Local quoted securities	10,200	10,761
Foreign quoted securities	10,052	10,165
	20,252	20,926

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 780 thousand (2015: KD 774 thousand) is higher than its cost of KD 620 thousand (2015: KD 614 thousand).

During the prior year ended 31 December 2015, the Group sold off apartments in two floors of the building which resulted in a realised gain of KD 943 thousand in the consolidated income statement.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

12 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2016 KD 000's	2015 KD 000's
Quoted equity investments	39,156	39,447
Unquoted equity investments	32,061	33,346
Unquoted mutual fund investments (investing in quoted securities)	29,461	26,035
	100,678	98,828

During the year, the Group has charged an impairment loss of KD 2,741 thousand (2015: KD 7,698 thousand) against quoted equity investments.

Unquoted equity investments with a carrying value of KD Nil thousand (2015: KD 1,935 thousand) are fair valued using fair valuation techniques which resulted in an unrealised loss of KD Nil thousand during the year (2015: unrealised loss of KD 404 thousand) recorded in other comprehensive income and KD Nil thousand (2015: KD 23 thousand) as impairment charge.

Unquoted equity investments include investments amounting to KD 32,061 thousand (2015: KD 31,411 thousand) that are 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. There is no active market for these financial assets and the Group intends to hold them for the long term. Management has 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 (2015: KD 6,612 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 284 thousand (2015: KD 2,727) 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.

13 INVESTMENT IN ASSOCIATES

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

	2016 KD 000's	2015 KD 000's
As at 1 January	25,444	13,308
Additions	325	12,400
Share of results for the year	(435)	226
Dividend received	(636)	(156)
Share of other comprehensive loss	(83)	(230)
Foreign currency translation adjustment	67	146
Liquidation proceeds from an associate	(1,453)	-
Impairment loss on associates	(872)	(250)
As at 31 December	22,357	25,444

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

13 INVESTMENT IN ASSOCIATES (Continued)

During the prior year, there were additional acquisition by subsidiary companies of equity interest equivalent to 14% in a real estate investment company, which was previously accounted for as an associate resulting in the increase in Group equity interest from 17 % to 31%.The Group determines that it continues to exercise significant influence over the real estate investment company.

In addition, during the prior year, the Parent Company received additional equity interest in an investment bank (previously accounted for as financial asset available-for-sale) amounting to KD 8,675 thousand as liquidation proceeds from GIC, Bahrain (Note 4) resulting in the increase of its equity interest from 4% to 34%.The Group determined that it exercises significant influence over the investment bank at the date of acquisition and consequently accounted for this transaction under IAS 28: Investment in Associate and Joint ventures ("IAS 28").

Share of aggregate of associates' gross assets and liabilities:

	2016 KD 000's	<i>2015</i> <i>KD 000's</i>
Current assets	8,923	12,577
Non-current assets	21,339	26,950
Current liabilities	4,035	3,236
Non-current liabilities	1,749	5,509

Share of aggregate of associates' revenue and results:

	2016 KD 000's	<i>2015</i> <i>KD 000's</i>
Revenue	2,752	1,703
Results	(435)	226

14 INVESTMENT PROPERTIES

	2016 KD 000's	<i>2015</i> <i>KD 000's</i>
As at 1 January	32,140	25,053
Additions	2,184	8,544
Change in fair value	(1,692)	(1,457)
As at 31 December	32,632	32,140

The Group's investment properties consist of eleven (2015: ten) 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 10,471 thousand (2015: KD 9,153 thousand) are collateralised against loans (Note 16).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

14 INVESTMENT PROPERTIES (Continued)

	2016 KD 000's	2015 KD 000's
Rental income derived from investment properties	1,924	1,774
Direct operating expenses (including repairs and maintenance)	(399)	(386)
Net rental income arising from investment properties	1,525	1,388

Reconciliation of fair value:

	<i>Investment properties</i>	
	<i>Resort</i> KD 000's	<i>Buildings</i> KD 000's
As at 1 January 2015	904	24,149
Re-measurement recognised in consolidated income statement	(573)	(884)
Additions	-	8,544
As at 31 December 2015	331	31,809
Re-measurement recognised in consolidated income statement	(331)	(1,361)
Additions	-	2,184
As at 31 December 2016	-	32,632

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

15 OTHER ASSETS

	2016 KD 000's	2015 KD 000's
Accrued management fees	543	520
Positive fair value of derivatives (Note 24)	-	6
Other assets	4,006	4,946
	4,549	5,472

16 DUE TO BANKS

	2016 KD 000's	2015 KD 000's
Secured borrowings:		
- Denominated in Kuwaiti Dinars	6,713	5,640
- Denominated in USD	940	1,042
	7,653	6,682

During the year, the Parent Company obtained one additional finance facility from a local bank amounting to KD 1,073 thousand (2015: KD 2,630 thousand). The facilities as on 31 December 2016 carries interest rate ranging from 3.4% to 4.50% (2015: 2.3% to 4.75%) and are repayable within one year.

All facilities are secured by investment properties (Note 14) and financial assets at fair value through profit or loss (Note 10).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

17 ACCOUNTS PAYABLE AND ACCRUALS

	2016 <i>KD 000's</i>	<i>2015</i> <i>KD 000's</i>
Accrued expenses	3,754	3,706
Dividend payable	1,266	1,374
Other payables	3,847	3,953
	8,867	9,033

18 SHARE CAPITAL, RESERVES AND DIVIDENDS

a) Share capital

The authorised, issued and fully paid up share capital at 31 December 2016, comprises 876,213 thousand shares (2015: 876,213 thousand shares) of 100 fils each paid up in cash.

b) Share premium

Share premium is not available for distribution.

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 16 April 2017, the Board of Directors of the Parent Company have proposed to write-off the accumulated losses balance as at 31 December 2016 amounting to KD 7,819 thousand against the statutory reserve. This proposal is subject to approvals of the Parent Company's shareholders at the Annual General Meeting ("AGM").

d) Treasury shares

	2016	<i>2015</i>
Number of treasury shares	39,046,273	33,620,086
Percentage of capital	4.46%	3.84%
Cost – KD thousand	5,411	4,986
Market value – KD thousand	3,709	2,959
Weighted average of market value per share (fils)	101	124

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

18 SHARE CAPITAL, RESERVES AND DIVIDENDS (continued)**e) Other comprehensive income**

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

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

	<i>Cumulative changes in fair values</i>	<i>Foreign currency translation reserve</i>	<i>Non-controlling interests</i>	<i>Total</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
2015				
Net unrealised loss on financial assets available-for-sale	(20,162)	-	(411)	(20,573)
Foreign currency translation adjustments	-	398	277	675
Transfer to consolidated income statement on sale of financial assets available for sale	380	-	25	405
Transfer to consolidated income statement on impairment of financial assets available for sale	16,848	-	212	17,060
Share of other comprehensive loss of associates	(230)	-	-	(230)
	(3,164)	398	103	(2,663)

f) Dividends

At the AGM of the Parent Company's shareholders held on 24 April 2016, it was approved not to pay any dividend for the year ended 31 December 2015. At the AGM of the Parent Company's shareholders held on 28 May 2015, for the year ended 31 December 2014, cash dividend of 6% of the paid-up capital amounting to KD 5,084 thousand was approved and paid.

On 16 April 2017, the Board of Directors of the Parent Company proposed the distribution of cash dividend from the statutory reserve representing 5% of the paid up share capital for the financial year ended 31 December 2016 amounting to KD 4,186 thousand. This proposal is subject to the approvals of the Parent Company's shareholders at the AGM.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

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.

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
2015	Associates	Other related parties	Total
	KD'000	KD'000	KD'000
Transactions included in consolidated income statement			
Management and advisory fees	8	2,140	2,148
Rental income	66	-	66
Consolidated statement of financial position			
Other assets	6	1,895	1,901

Compensation of key management personnel

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

	2016	2015
	KD 000's	KD 000's
Salaries and short-term benefits	821	840
Employees' end of service benefits	109	206
	930	1,046

Directors' remuneration for the year ended 31 December 2016 amounted to KD Nil (2015: Nil).

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:

	2016	2015
	KD 000's	KD 000's
Al Seef	2,950	2,627
Al Mada	6,101	6,185

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

20 MATERIAL PARTLY-OWNED SUBSIDIARIES (Continued)

Summarised income statement for the year ended 31 December:

	2016		2015	
	<i>Al Seef</i> KD 000's	<i>Al Mada</i> KD 000's	<i>Al Seef</i> KD 000's	<i>Al Mada</i> KD 000's
Revenue	1,467	1,463	1,233	(1,706)
Expenses	992	197	1,180	208
Profit (loss) for the year	475	1,266	53	(1,914)
Total comprehensive income (loss)	619	1,266	(281)	(1,637)
Attributable to non-controlling interests:				
Profit (loss) for the year	248	669	28	(1,050)
Other comprehensive income (loss)	75	60	(174)	277
	323	729	(146)	(773)

Summarised statement of financial position as at 31 December:

	2016		2015	
	<i>Al Seef</i> KD 000's	<i>Al Mada</i> KD 000's	<i>Al Seef</i> KD 000's	<i>Al Mada</i> KD 000's
Total assets	6,999	12,206	6,045	11,355
Total liabilities	1,341	329	1,006	40
Total equity	5,658	11,877	5,039	11,315
Attributable to:				
Equity holders of the Parent Company	2,708	5,776	2,412	5,130
Non-controlling interests	2,950	6,101	2,627	6,185
	5,658	11,877	5,039	11,315

Summarised cash flow information for year ended 31 December:

	2016		2015	
	<i>Al Seef</i> KD 000's	<i>Al Mada</i> KD 000's	<i>Al Seef</i> KD 000's	<i>Al Mada</i> KD 000's
Operating	1,029	452	31	1,244
Investing	(444)	-	(132)	-
Financing	(1)	(558)	(21)	(865)
Net increase (decrease) in cash and cash equivalents	584	(106)	(122)	379

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

21 SEGMENT INFORMATION (Continued)

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.

2016

	<i>Investment</i> KD 000's	<i>Treasury</i> KD 000's	<i>Real estate</i> KD 000's	<i>Asset management and advisory</i> KD 000's	<i>Unallocated</i> KD 000's	<i>Total</i> 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

2015

	<i>Investment</i> KD 000's	<i>Treasury</i> KD 000's	<i>Real estate</i> KD 000's	<i>Asset management and advisory</i> KD 000's	<i>Unallocated</i> KD 000's	<i>Total</i> KD 000's
Segment revenues	15,048	330	1,269	2,888	-	19,535
Segment results	(5,889)	(379)	117	(313)	-	(6,464)
Segment impairment losses and provisions	18,243	(139)	-	1,952	-	20,056
Segment assets	156,059	2,939	33,275	596	642	193,511
Segment liabilities	1,611	1,042	5,874	118	7,070	15,715
Commitments and contingencies	712	-	414	-	8	1,134

The Group does not have any inter-segment transaction.

Geographic information

	2016 KD	2015 KD
Total income from external sources		
Kuwait and GCC	9,793	19,307
International	820	228
	10,613	19,535

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

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 1,057 thousand (2015: 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 - Company 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:

	2016 KD 000's	2015 KD 000's
Future minimum lease receipts:		
Within one year	1,574	2,289
Within one to two years	1,323	1,268
Within two to five years	2,284	2,160

c) Capital expenditure commitments

At 31 December 2016, 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 1,606 thousand (2015: KD 77 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 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 1,521,208 thousand (2015: KD 1,084,364 thousand). The total income earned from trust and other fiduciary activities amounted to KD 2,409 thousand (2015: KD 2,853 thousand).

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 2016 and 2015. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

24 DERIVATIVES (Continued)

2016	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>
Forward foreign exchange contracts	-	-	-
2015	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>
Forward foreign exchange contracts	6	-	1,167

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.

25.1 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

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

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

	2016 KD 000's	2015 KD 000's
Balances with banks and other financial institutions	15,180	9,635
Other assets	3,928	3,834
Total	19,108	13,469

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 3,853 thousands (2015: KD 2,419 thousand).

The Group does not have any collateral or other credit enhancements against any of the financial assets at 31 December 2016 and 31 December 2015.

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:

2016	Kuwait KD 000's	GCC & Arab KD 000's	International KD 000's	Total 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

2015	Kuwait KD 000's	GCC & Arab KD 000's	International KD 000's	Total KD 000's
Assets				
Balances with banks and financial institutions	4,075	2,232	3,328	9,635
Other assets	3,587	22	225	3,834
Total credit risk exposure	7,662	2,254	3,553	13,469

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

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:

2016	<i>Banks and other financial institutions</i> KD 000's	<i>Construction and real estate</i> KD 000's	<i>Other</i> KD 000's	<i>Total</i> KD 000's
Assets				
Balances with banks and financial institutions	15,180	-	-	15,180
Other assets	2,653	187	1,088	3,928
Total credit risk exposure	17,833	187	1,088	19,108

2015	<i>Banks and other financial institutions</i> KD 000's	<i>Construction and real estate</i> KD 000's	<i>Other</i> KD 000's	<i>Total</i> KD 000's
Assets				
Balances with banks and financial institutions	9,635	-	-	9,635
Other assets	2,748	9	1,077	3,834
Total credit risk exposure	12,383	9	1,077	13,469

Analysis of past due but not impaired

The Group did not have any "past due but not impaired" financial assets at 31 December 2016 and 31 December 2015.

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:

2016	<i>Within 3 months</i> KD 000's	<i>3 to 6 months</i> KD 000's	<i>6 to 12 months</i> KD 000's	<i>Over one year</i> KD 000's	<i>Total</i> KD 000's
Due to banks	2,636	4,040	1,073	-	7,749
Accounts payable and accruals	5,825	-	-	2,976	8,801
Total liabilities	8,461	4,040	1,073	2,976	16,550
Capital commitment and contingent liabilities	996	1,413	199	55	2,663

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

25.2 Liquidity risk (continued)

2015	Within 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	Over one year KD 000's	Total KD 000's
Due to banks	2,334	48	4,512	-	6,894
Accounts payable and accruals	6,111	-	-	2,883	8,994
Total liabilities	8,445	48	4,512	2,883	15,888
Capital commitment and contingent liabilities	77	-	8	1,049	1,134

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.

2016	Within 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	Over one year KD 000's	Total KD 000's
Assets					
Cash and balances with banks and financial institutions	15,192	-	-	-	15,192
Financial assets at fair value through profit or loss	20,252	-	-	-	20,252
Trading properties	620	-	-	-	620
Financial asset available-for-sale	-	-	-	100,678	100,678
Investments in associates	-	-	-	22,357	22,357
Investment properties	-	-	-	32,632	32,632
Other assets	4,193	-	-	356	4,549
Goodwill	-	-	-	431	431
Total assets	40,257	-	-	156,454	196,711

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

25.2 Liquidity risk (continued)

2015	<i>Within 3 months KD 000's</i>	<i>3 to 6 months KD 000's</i>	<i>6 to 12 months KD 000's</i>	<i>Over one year KD 000's</i>	<i>Total KD 000's</i>
Assets					
Cash and balances with banks and financial institutions	9,656	-	-	-	9,656
Financial assets at fair value through profit or loss	20,926	-	-	-	20,926
Trading properties	614	-	-	-	614
Financial asset available-for-sale	-	-	-	98,828	98,828
Investments in associates	-	-	-	25,444	25,444
Investment properties	-	-	-	32,140	32,140
Other assets	5,056	-	-	416	5,472
Goodwill	-	-	-	431	431
Total assets	36,252	-	-	157,259	193,511
Liabilities					
Due to banks	2,242	-	4,440	-	6,682
Accounts payable and accruals	6,150	-	-	2,883	9,033
Total liabilities	8,392	-	4,440	2,883	15,715

25.3 Market risk

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

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

25.3.1 Foreign currency risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**25.3 Market risk (continued)****25.3.1 Foreign currency risk (continued)**

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

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

<i>Currency</i>	<i>Increase / (decrease) in rate to the KD</i>	<i>Effect on result 2016 KD 000's</i>	<i>Effect on other comprehensive income 2016 KD 000's</i>	<i>Effect on result 2015 KD 000's</i>	<i>Effect on other comprehensive income 2015 KD 000's</i>
Euro	+5%	2	60	2	84
	-5%	(62)	-	(2)	(84)
US Dollar	+5%	157	796	231	957
	-5%	(541)	(412)	(626)	(563)
Qatari Riyal	+5%	3	130	7	116
	-5%	(3)	(130)	(13)	(110)
Saudi Riyal	+5%	195	721	21	901
	-5%	(392)	(524)	(508)	(414)
UAE Dirham	+5%	24	345	15	307
	-5%	(24)	(345)	(55)	(267)

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 31 December 2016

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

25.3 Market risk (continued)

25.3.2 Interest rate risk (continued)

	<i>Increase/decrease in basis points</i>	<i>Effect on result for the year KD 000's</i>
2016		
KD	+25	(2)
KD	-25	2
2015		
KD	+25	(9)
KD	-25	9

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:

	<u>2016</u>		<u>2015</u>	
	<i>Effect on other comprehensive income KD 000's</i>	<i>Effect on result KD 000's</i>	<i>Effect on other comprehensive income KD 000's</i>	<i>Effect on result KD 000's</i>
Market indices				
Kuwait	1,420	506	1,136	371
Others	472	418	603	466

25.4 Prepayment risk

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

25.5 Operation risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

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:

	Date of valuation	Fair value measurement using			
		Total KD 000's	Quoted prices in active markets (Level 1) KD 000's	Significant observable inputs (Level 2) KD 000's	Significant unobservable inputs (Level 3) KD 000's
2016					
Assets measured at fair value					
<i>Financial assets at fair value through profit or loss:</i>					
Local quoted securities	31 December 2016	10,200	10,200	-	-
Foreign quoted securities	31 December 2016	10,052	10,052	-	-
<i>Financial assets available for sale:</i>					
Quoted equity investments	31 December 2016	39,156	39,156	-	-
Unquoted mutual fund Investments (investing in quoted securities)	31 December 2016	29,461	-	29,461	-
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	29,461	33,412

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

26 FAIR VALUE MEASUREMENT (continued)

2015	Date of valuation	Fair value measurement using			
		Total KD 000's	Quoted prices in active markets (Level 1) KD 000's	Significant observable inputs (Level 2) KD 000's	Significant unobservable inputs (Level 3) KD 000's
Assets measured at fair value					
<i>Financial assets at fair value through profit or loss:</i>					
Local quoted securities	31 December 2015	10,761	10,761	-	-
Foreign quoted securities	31 December 2015	10,165	10,165	-	-
<i>Financial assets available for sale:</i>					
Quoted equity investments	31 December 2015	39,447	39,447	-	-
Unquoted equity investments	31 December 2015	1,935	-	-	1,935
Unquoted mutual fund Investments (investing in quoted securities)	31 December 2015	26,035	-	26,035	-
<i>Investment properties</i>	31 December 2015	32,140	-	-	32,140
<i>Forward foreign exchange contracts</i>	31 December 2015	6	-	6	-
Assets measured at cost while fair value is disclosed					
<i>Trading properties</i>	31 December 2015	774	-	-	774
		121,263	60,373	26,041	34,849

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 31 December 2016

26 FAIR VALUE MEASUREMENT (continued)

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

	<i>As at 1 January 2016 KD 000's</i>	<i>Gain / (loss) recorded in the consolidated income statement KD 000's</i>	<i>Gain / (loss) recorded in other comprehensive income KD 000's</i>	<i>Net purchases, transfer, sales and settlements KD 000's</i>	<i>As at 31 December 2016 KD 000's</i>
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

	<i>As at 1 January 2015 KD 000's</i>	<i>Gain / (loss) recorded in the consolidated income statement KD 000's</i>	<i>Gain / (loss) recorded in other comprehensive income KD 000's</i>	<i>Net purchases, transfer, sales and settlements KD 000's</i>	<i>As at 31 December 2015 KD 000's</i>
Financial assets designated at fair value through profit or loss:					
Local unquoted securities	405	-	-	(405)	-
Financial assets available- for-sale:					
Unquoted equity investments	2,296	(23)	(404)	66	1,935
Investment properties	25,053	(1,457)	-	8,544	32,140
	27,754	(1,480)	(404)	8,205	34,075

Description of significant unobservable inputs to valuation of financial assets:

Unquoted equity investment is valued based on net book value method using latest available financial statement of the investee entity, wherein the underlying assets are fair valued.

Derivative assets and liabilities are value based on a broker's quotes. The management considers the broker quotes as a fair indication of the fair value of these financial instruments.

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

For the purpose of measuring fair value of trading properties and 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 and annual growth rate in the country in which the properties are located.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at 31 December 2016

26 FAIR VALUE MEASUREMENT (continued)

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%.

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 2016 and 2015.

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.

	2016 <i>KD 000's</i>	<i>2015</i> <i>KD 000's</i>
Due to banks	7,653	6,682
Accounts payable and accruals	8,867	9,033
Less: Cash and balances with banks and financial institutions	(15,192)	(9,656)
Net debt	1,328	6,059
Equity attributable to the equity holders of the Parent Company	171,136	168,980
(Less) Add: Cumulative changes in fair values	(3,630)	2,947
Total capital	167,506	171,927
Capital and net debt	168,834	177,986
Gearing ratio	1%	3%