KMEFIC

Annual Report 2013

Optimism

Commitment

Continuity

Contents

K M E F I C

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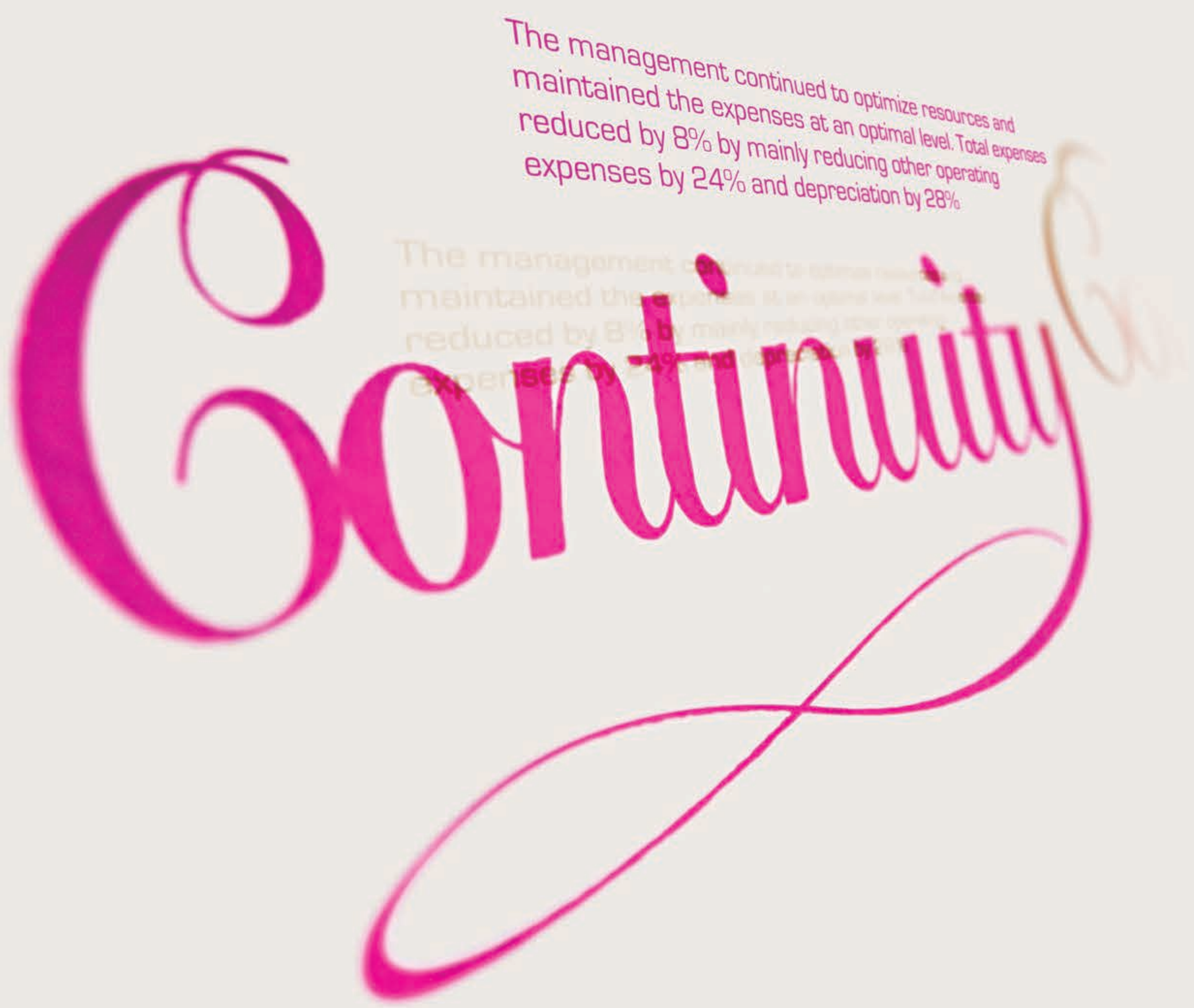
H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait

H.H. Sheikh Jaber Mubarak Al-Hamad Al-Sabah
Prime Minister of the State of Kuwait

H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
Crown Prince of the State of Kuwait



Chairman's Message

Dear Shareholders,

The global economic environment continued to improve during 2013 driven primarily by growth in developed economies. As per IMF, global economy maintained its growth momentum during 2013 by registering a real growth rate of 3.0% and is expected to grow by 3.7% in 2014. The recovery in the developed economies was led by Eurozone which is turning the corner from recession to recovery. The economic growth in Japan increased from 1.4% in 2012 to 1.7% in 2013 as the economy continues to benefit from 'Abenomics'. US recovery is also holding up well due to growth in increased consumer spending on account of factors like healthy levels of job creation, reduction in household debt and continuing low interest rates etc. In contrast to the developed economies, the emerging markets witnessed increased level of volatility during 2013. The emerging markets were impacted by various developments including US Fed tapering, concerns over China's growth, policy or political uncertainty and bottlenecks.

The Middle Eastern economies continue to record healthy growth rates on the back of high oil prices and increased government spending. Oil prices remain above $100 per barrel thereby providing enough leeway to regional governments to maintain their expenditure level. However there is an urgent need for economic diversification on the part of regional economies to reduce their dependency on oil income. On the other hand several regional economies continue to be impacted by the prolonged Arab Spring which has put a lot of stress on the economic growth.

High oil prices and increased production have enabled the Kuwait government to continue to record high fiscal and external surpluses and build strong buffers during 2013. As per IMF, the overall real non-oil GDP in Kuwait is estimated to have increased by 3% in 2013, driven by an increase in domestic consumption and pick-up in public investment. The fiscal and external surpluses are estimated at 27% and 39% of GDP, respectively, in 2013, reflecting high oil prices. Monetary policy has remained accommodative and bank credit growth has picked up. IMF expects the economic outlook to improve further in 2014 and over the medium term. In 2014, Kuwait's non-oil GDP is expected to grow by 4.4% supported by public capital spending. Over the medium term, non-oil growth is projected to accelerate to about 5% as large infrastructure investments (Kuwait Development Plan) are foreseen to support the growth momentum. As per IMF, a sustained fall in oil prices remains the main downside risk to the Kuwait's growth outlook.

International Stock Markets rebounded in 2013, despite investors' concerns over the tapering of the US Federal Reserve's monetary stimulus programme. U.S. equity markets registered their strongest year since 1997, with the S&P 500 finishing the year 30% higher than last year. European stock markets also experienced their strongest annual performance since 2009, as fears of a Eurozone breakup abated and the economic outlook improved. The strongest performer of the large Eurozone economy stock market indexes was Germany's DAX, which rose 23% on the year. Despite France's relative economic malaise, the CAC 40 Index rose a respectable 18%. Spain's IBEX 35 Index gained 21% and Italy's MIB rose 12% in 2013. In the UK, the FTSE 100 index finished the year up 14%, its best performance in four years.

In Asia, Japan's Nikkei index was the standout performer of 2013. It jumped 52%, with investors encouraged by Prime Minister Shinzo Abe's overhaul of monetary and fiscal policy designed to pull the world's third largest economy out of its two-decade-long deflationary stagnation. However, the performance of emerging market economies was more mixed. MSCI's emerging market index fell by 5% in 2013. The Indian stock exchange recovered from its plunge in the summer and finished the year up 9%. But the Brazilian stock market endured a torrid 2013, losing 18% over the year.

With regards to the GCC exchanges, during the past year there were more independent trends as these markets have become less correlated during the recent years. For instance, in the UAE, markets were in the positive territory since the beginning of the year which was a result of improving economic conditions of the country. The case was not so similar across the region; while all of the GCC Stock Markets ended the year 2013 on a positive note, gains were very different across exchanges. DFM Index was the top performer increasing by a staggering 107.7%. This was DFM's biggest annual gain since the crisis, making it among the top gainers in the world, followed by ADX

Chairman's Message (continued)

Index rising 63.1% YoY. QE Index took a similar path with steady gain of 28.4% in 2013. Meanwhile KSE price index and SSE index added 27.2% YoY and 25.5% YoY respectively in 2013. MSM Index gained 18.6% while BB Index recorded an increase of 17.2% during the year.

The flipside of the recovery of global equity markets was a fall in demand for perceived safe assets. Gold registered its largest annual decline in 30 years during 2013, with the spot price falling by 28% over the 12 months to $1,190 per ounce. Investors in gold suffered their first annual loss since the beginning of the current millennium. Meanwhile, the price of silver fell 36%, its worst annual performance since 1982.

Company's performance

The year 2013 has been an upbeat year for GCC markets. Across GCC, the performances of the markets were positive. After few years of losses due to the economic crisis, the company finally turned around its performance and achieved a total revenue of KD 5.9 million, compared to KD 3.9 million in the previous year. On the positive side, the sustained efforts made by the management to boost the company's performance by improving business activities and at the same time reducing costs resulted in a net profit of KD 1.2 million, a significant improvement from the loss of KD 1.2 million in the previous year. The company's brokerage business witnessed growth, both in market share and revenue leading to a commission income of KD 2.0 million (higher by 36% compared to KD 1.5 million in the previous year) representing approximately 33.5% of total revenue. Management fees of KD 2.1 million (representing 34.6% of the total revenue) was marginally higher than previous year's fee income of KD 2.0 million. Share of results from associate improved to KD 0.57 million (higher by 14.3% compared to KD 0.5 million in the previous year) constituting 9.5% of total revenue. With markets performing well, dividend income of KD 511 thousand was higher compared to previous year's KD 171 thousand. The company recorded a gain of KD 635 thousand from investments compared to KD 425 thousand losses during the previous year.

The management continued to optimize resources and maintained the expenses at an optimal level. Total expenses reduced by 8% by mainly reducing other operating expenses by 24% and depreciation by 28%. The aforementioned steps culminated in overall progress in the company's performance and the net profit attributable to its' shareholders was KD 1.2 million as compared to a loss of KD 1.2 million in 2012. This translated into basic and diluted gain per share of 4.4 fils in 2013 compared to basic and diluted loss per share of 4.5 fils in 2012. The company's management is optimistic of the future to sustain and continue the significant improvement witnessed in 2013.

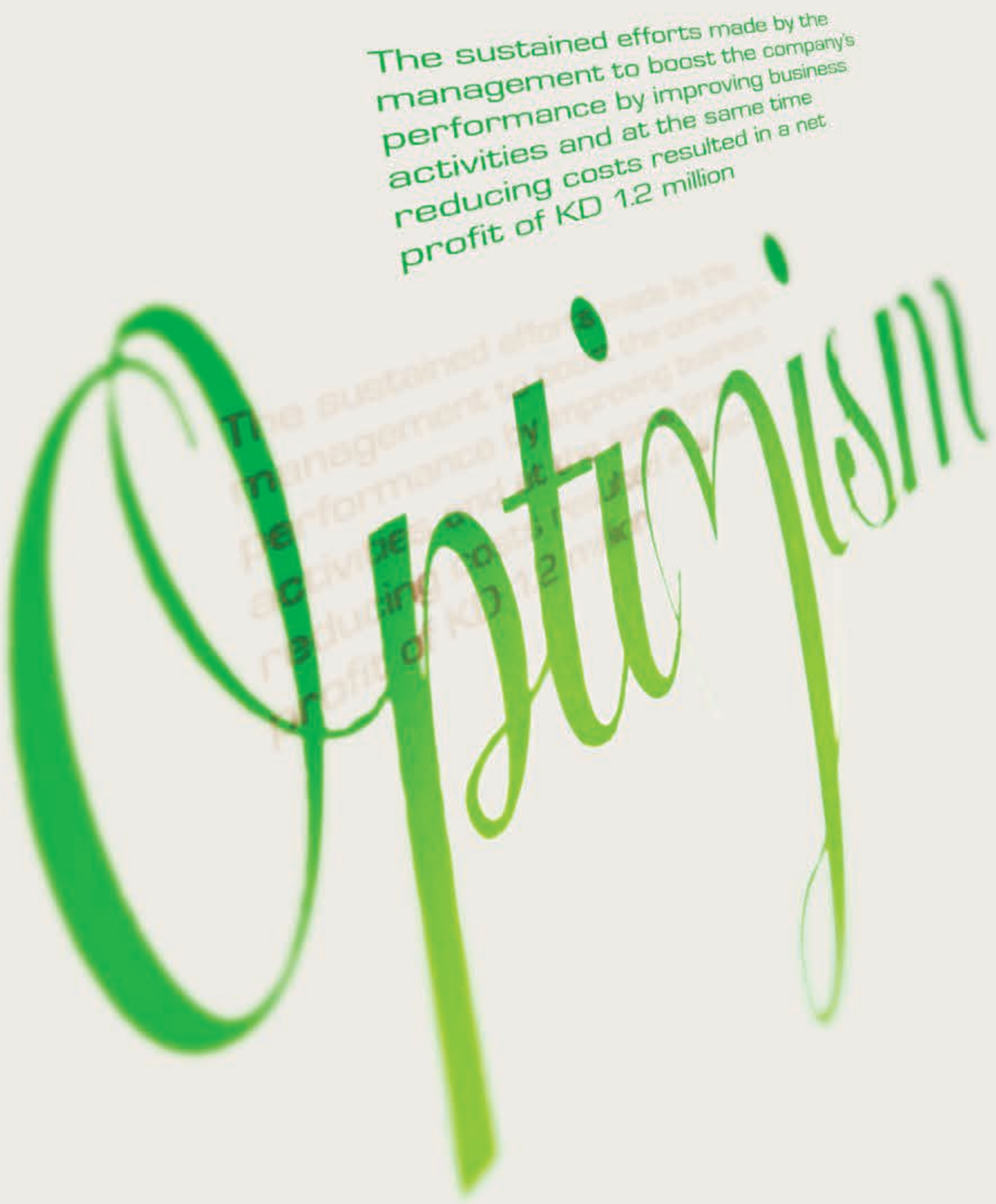
Asset Management

The year-end results for Kuwait & Middle East Financial Investment Company's Kuwaiti and GCC equity strategies were mixed against the comparable benchmarks given the strength of the small and mid-cap space. However, on a risk adjusted basis, the portfolio managers were able to generate relative outperformance against the same comparable benchmarks with prudent stock selection and sector rotation.

In the Local Financial Derivatives service, KMEFIC Asset Management was able to generate very attractive returns for its investors against the comparable benchmarks as a strong equity market and increased trading activity attracted investors to invest through this derivatives service. This in turn extended the team's winning streak to five years of solid relative returns.

KMEFIC's International strategies were buoyed by changes to the manager selection criteria and due diligence processes implemented in mid-2012 which helped generate returns consistent with portfolio mandates and the comparable benchmarks. Given the low visibility and the possibility of a halt to accommodative monetary and fiscal policy in the developed markets, the International Strategies were able to generate relative outperformance with low levels of beta and a specific focus on alpha generating managers and strategies.

There is a continued drive and determination at KMEFIC to introduce innovative products and strategies to the investment public both locally and regionally and the staff has been working diligently with the appropriate entities to expedite this process. We remain optimistic of delivering innovative products to the marketplace given our stable asset management business and our regional strategic partners.



Chairman's Message (continued)

Brokerage

During 2013, the increase in KMEFIC income were derived from the online trading platform Alawsat.com and the brokerage operations represented by our subsidiary Middle East Financial Brokerage Company "MEFBC-Kuwait". MEFBC's performance has positively improved during the year as the management worked to develop its strategy focusing on attracting special segment of customers and ensuring diversification between portfolios, funds and individuals. MEFBC has well complemented existing online trading business and further helped KMEFIC to increase its income stream.

Online Services

KMEFIC continues to offer the online trading on the markets of Kuwait, Saudi Arabia, Dubai, Abu Dhabi and Qatar in addition to the U.S. markets. In order to support and enhance our online services, KMEFIC has successfully launched the new online trading platform "KMEFIC Trader" in 2013 and during 2014 KMEFIC will be introducing a new online trading tool "the smart phone application" as a further step to maintain its technological edge. KMFEIC future technology strategy is oriented towards shifting to a cloud approach to ensure seamless user experience in all communication devices (desktop, mobile, and tablet).

Research

KMEFIC Research Department has been designed to support the two important functional areas: the investment decision making process and the brokerage line of business. The department aims to fulfill its role while maintaining rigorous standards to guarantee the publication of high quality research. Furthermore, the department delivers objective and fact-based analysis on GCC via key reports, including: Daily Stock Market Reports, Central Banks Digest, Corporate Results, Equity Analysis, and occasional studies published as media articles.

The quality of KMEFIC's research is a result of strict adherence to well put policies and procedures covering the entire research process, from data collection to reports dissemination.

Closing Thoughts and Outlook

The backdrop of improving growth with still lower inflation and interest rates is positive for the growth assets; however returns may be a bit more constrained and volatile than what we witnessed in 2013. Equities are likely to continue to push higher as the global recovery picks up pace driving strong earnings growth and low interest rates supporting investors' ongoing shift from cash and bonds into equities.

We aim to maintain a highly selective and thorough investment philosophy and process that aims to identify assets with favorable risk/reward characteristics in an effort to continue adding value to our client's investment objectives.

Finally, I would like to extend my sincere appreciation and gratitude to all of KMEFIC's management and staff for their continued devotion and commitment which will enable the company to go forward to achieve its goals and objectives while maintaining its status as one of the leading investment and asset management companies in Kuwait. As a final note, I would like to express the company's sincere gratitude to all our shareholders and clients for their continued support and trust in KMEFIC's vision.

Jehad Saud Al-Humaidhi
Chairman

Board of Directors

Jehad Al-Humaidhi
Chairman

Hamed Al-Sanee
Vice Chairman & CEO

Ahmed Zulficar
Director

Prakash Mohan
Director

Herschel Post
Director

Walid AbdelKarim
Director

Rajeev Gogia
Director

Auditors' Report

Independent to the Shareholders of Kuwait And Middle East Financial Investment Company K.S.C.P.

Deloitte.

EY
Building a better working world

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait and Middle East Financial Investment Company K.S.C.P. (the "company") and its subsidiaries (collectively, the "group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the company and the consolidated financial statements, together with the contents of the report of the company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 25 of 2012,as amended and by the company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012,as amended, or of the company's Memorandum of Incorporation and Articles of Association have occurred during the financial year ended 31 December 2013 that might have had a material effect on the business of the group or on its financial position.

We further report that, during the course of our audit to the best of our knowledge and belief, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business and its related regulations or of the provisions of Law No. 7 of 2010, concerning the Capital Markets Authority and its related regulations during the financial year ended 31 December 2013, that might have had a material effect on the business of the group or on its financial position.

Talal Y. Al-Muzaini
Licence No. 209 A
Deloitte & Touche
Al-Wazzan & Co.

Waleed A. Al Osaimi
Licence No. 68 A
Ernst & Young
Al Aiban, Al Osaimi & Partners

03 February 2014
Kuwait

Consolidated Statement of Financial Position

As at 31 December 2013

	Notes	31 December 2013 KD	31 December 2012 KD (Restated)*	1 January 2012 KD
Assets				
Cash and balances with banks	3	1,230,732	2,321,794	3,966,422
Term deposits	4	50,750	50,000	464,361
Investments	5	17,405,389	16,009,265	16,955,155
Loans and advances	6	8,293,355	8,558,657	8,853,881
Investment in an associate	7	9,907,848	9,237,342	8,353,284
Investment properties	8	887,156	-	-
Other assets	9	2,147,006	1,235,650	1,668,809
Intangible assets	10	12,500,000	12,500,000	12,500,000
Equipment	11	1,097,798	1,460,092	1,953,845
Non-current assets held for sale	12	-	853,123	993,786
TOTAL ASSETS		53,520,034	52,225,923	55,709,543
LIABILITIES AND EQUITY				
LIABILITIES				
Loans from bank	13	24,034,754	24,138,765	24,089,623
Accounts payable and other liabilities	14	4,161,746	4,081,716	5,277,425
TOTAL LIABILITIES		28,196,500	28,220,481	29,367,048
EQUITY				
Share capital	15	26,381,499	26,381,499	26,381,499
Reserves	16	(1,718,823)	(3,177,916)	(2,618,962)
		24,662,676	23,203,583	23,762,537
Treasury shares	17	(1,174,880)	(1,174,880)	(1,174,880)
Equity attributable to shareholders of the company		23,487,796	22,028,703	22,587,657
Non-controlling interests		1,835,738	1,976,739	3,754,838
TOTAL EQUITY		25,323,534	24,005,442	26,342,495
TOTAL LIABILITIES AND EQUITY		53,520,034	52,225,923	55,709,543

Jehad Saud Al-Humaidhi
Chairperson

Hamed Hamad Al-Sanee
Vice Chairman & CEO

* Certain amounts shown here do not correspond to the consolidated financial statements as at 31 December 2012 and reflect adjustments made as detailed in Note 2.3.

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss

For the year ended 31 December 2013

	Notes	2013 KD	2012 KD (Restated)*
Continuing operations			
Income:			
Management fees	25	2,061,494	2,018,830
Interest income	18	56,133	90,929
Commission income		1,995,437	1,467,185
Net gain (loss) on investments		634,505	(425,448)
Dividend income		511,319	170,713
Share of results from an associate	7	567,217	496,302
Foreign exchange gain		93,337	73,062
Other income		29,351	33,587
Income		5,948,793	3,925,160
Expenses:			
Staff expenses		2,503,707	2,290,900
Other operating expenses		1,117,053	1,446,216
Depreciation	8 & 11	434,884	603,013
Interest expense		706,621	852,967
Expenses		4,762,265	5,193,096
Operating profit (loss) before provisions and impairment losses		1,186,528	(1,267,936)
Net movement in provision for impairment on loans and advances and other assets	19	(29,627)	(59,227)
Profit (loss) for the year from continuing operations		1,156,901	(1,327,163)
Discontinued operations			
Profit before tax for the year from discontinued operations	12	132,840	141,063
Profit (loss) for the year before taxation		1,289,741	(1,186,100)
Taxation	20	(50,150)	-
PROFIT (LOSS) FOR THE YEAR		1,239,591	(1,186,100)
Attributable to			
Shareholders of the company		1,160,721	(1,164,533)
Non-controlling interests		78,870	(21,567)
		1,239,591	(1,186,100)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (FILS)	21	4.4	(4.5)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS (FILS)	21	4.0	(5.0)

* Certain amounts shown here do not correspond to the consolidated financial statements as at 31 December 2012 and reflect adjustments made as detailed in Note 2.3.

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Note	2013 KD	2012 KD (Restated)*
Profit (loss) for the year		1,239,591	(1,186,100)
Other comprehensive income:			
Other comprehensive income that are reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		33,860	113,036
Gain on hedge of net investments	13	(14,733)	(48,908)
Changes in fair value of investments available for sale		571,232	257,149
Net realised (gain) loss transferred to consolidated statement of profit or loss on disposal of investments available for sale		(253,847)	283,261
Other comprehensive income for the year		336,512	604,538
Total comprehensive income (loss) for the year		1,576,103	(581,562)
Attributable to:			
Shareholders of the company		1,497,811	(558,954)
Non-controlling interests		78,292	(22,608)
		1,576,103	(581,562)

* Certain amounts shown here do not correspond to the consolidated financial statements as at 31 December 2012 and reflect adjustments made as detailed in Note 2.3.

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 KD	2012 KD (Restated)*
Operating activities			
Profit (loss) for the year from continuing operations before taxation		1,156,901	(1,327,163)
Profit for the year from discontinued operations before taxation	12	132,840	141,063
Adjustments for:			
Interest income		(56,133)	(90,929)
(Gain) loss on disposal of investments available for sale		(253,847)	237,730
Dividend income		(511,319)	(170,713)
Share of results from an associate	7	(567,217)	(496,302)
Depreciation	8 & 11	434,884	603,013
Interest expense		706,621	852,967
Net movement in provision for impairment on loans and advances and other assets		29,627	59,227
Reversal of provision for impairment loss on discontinued operations		(50,989)	-
Operating income (loss) before changes in operating assets and liabilities		1,021,368	(191,107)
Investments at fair value through statement of profit or loss		(166,166)	365,763
Loans and advances		271,159	314,942
Other assets		(209,235)	292,479
Accounts payable and other liabilities		135,749	(743,582)
Interest income received		49,785	119,186
Net cash from operating activities		1,102,660	157,681
Investing activities			
Term deposits (invested) matured		(750)	414,361
Purchase of investments available for sale		(2,402,771)	(72,865)
Proceeds from disposal of investments available for sale		1,000,408	663,570
Purchase of equipment	11	(69,589)	(70,287)
Proceeds from sale of equipment		10,346	-
Dividend income received		457,879	170,713
Proceeds from disposal of non-current assets held for sale		-	114,628
Net cash (used in) from investing activities		(1,004,477)	1,220,120
Financing activity			
Repayment of bank loan		(118,744)	-
Ownership changes in subsidiary		(258,011)	(1,755,491)
Interest expense paid		(812,490)	(1,266,938)
Net cash used in financing activity		(1,189,245)	(3,022,429)
DECREASE IN CASH AND BALANCES WITH BANKS		(1,091,062)	(1,644,628)
Cash and balances with banks at beginning of the year		2,321,794	3,966,422
CASH AND BALANCES WITH BANKS AT END OF THE YEAR	3	1,230,732	2,321,794

* Certain amounts shown here do not correspond to the consolidated financial statements as at 31 December 2012 and reflect adjustments made as detailed in Note 2.3.

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2013

	Attributable to the shareholders of the company											
			Reserves									
	Share capital KD	**Share premium KD**	**Statutory reserve KD**	**General reserve KD**	**Accumulated losses KD**	**Fair valuation reserve KD**	**Foreign currency translation reserve KD**	**Treasury shares reserve KD**	**Total reserves KD**	**Treasury shares KD**	**Non controlling interests KD**	**Total equity KD**
Balance at 1 January 2013	26,381,499	1,157,687	6,707,958	6,379,860	(19,394,513)	58,704	(129,872)	2,042,260	(3,177,916)	(1,174,880)	1,976,739	24,005,442
Profit for the year	-	-	-	-	1,160,721	-	-	-	1,160,721	-	78,870	1,239,591
Other comprehensive income (loss) for the year	-	-	-	-	-	317,963	19,127	-	337,090	-	(578)	336,512
Total comprehensive income for the year	-	-	-	-	1,160,721	317,963	19,127	-	1,497,811	-	78,292	1,576,103
Ownership changes in a subsidiary during the year	-	-	-	-	(38,718)	-	-	-	(38,718)	-	(219,293)	(258,011)
Balance at 31 December 2013	**26,381,499**	**1,157,687**	**6,707,958**	**6,379,860**	**(18,272,510)**	**376,667**	**(110,745)**	**2,042,260**	**(1,718,823)**	**(1,174,880)**	**1,835,738**	**25,323,534**

	Attributable to the shareholders of the company											
			Reserves									
	Share capital KD	Share premium KD	Statutory reserve KD	General reserve KD	Accumulated losses KD	Fair valuation reserve KD	Foreign currency translation reserve KD	Treasury shares reserve KD	Total reserves KD	Treasury shares KD	Non controlling interests KD	Total equity KD
Balance at 1 January 2012 (As previously reported)	26,381,499	1,157,687	6,707,958	6,379,860	(18,030,512)	(693,050)	(194,800)	2,042,260	(2,630,597)	(1,174,880)	1,594,048	24,170,070
Effect of adoption of new standards (Note 2.3)	-	-	-	-	(199,468)	211,103	-	-	11,635	-	2,160,790	2,172,425
Balance at 1 January 2012 (restated)	26,381,499	1,157,687	6,707,958	6,379,860	(18,229,980)	(481,947)	(194,800)	2,042,260	(2,618,962)	(1,174,880)	3,754,838	26,342,495
(Loss) profit for the year	-	-	-	-	(1,164,533)	-	-	-	(1,164,533)	-	(21,567)	(1,186,100)
Other comprehensive income (loss) for the year	-	-	-	-	-	540,651	64,928	-	605,579	-	(1,041)	604,538
Total comprehensive (loss) income for the year	-	-	-	-	(1,164,533)	540,651	64,928	-	(558,954)	-	(22,608)	(581,562)
Ownership changes in a subsidiary during the year	-	-	-	-	-	-	-	-	-	-	(1,755,491)	(1,755,491)
Balance at 31 December 2012	26,381,499	1,157,687	6,707,958	6,379,860	(19,394,513)	58,704	(129,872)	2,042,260	(3,177,916)	(1,174,880)	1,976,739	24,005,442

The attached notes 1 to 30 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

At 31 December 2013

1- INCORPORATION AND ACTIVITIES

Kuwait and Middle East Financial Investment Company K.S.C.P. (the "company") is a Kuwaiti shareholding company incorporated on 1 January 1984. The company and its subsidiaries (collectively, the "group") are engaged in carrying out investment in various sectors inside and outside the State of Kuwait, establishing portfolio management and brokerage activities for its own account and for clients, trading of securities, issuance and managing securities internationally and locally, establishing and managing investment funds, borrowing and lending operations, conducting studies and research and providing financial advices, according to the articles of association of the company. The company's registered office is at 15th floor, Burj Al Jassem Building, Al Sour Street, Kuwait City, Kuwait.

The company's shares are listed on the Kuwait Stock Exchange. The company is a subsidiary of Ahli United Bank K.S.C.P.(the "parent company"), which is listed on the Kuwait Stock Exchange. The parent company is a subsidiary of Ahli United Bank B.S.C., a Bahraini bank (the "ultimate parent company"), listed on the Bahrain and Kuwait Stock Exchanges.

The company is regulated by the Capital Market Authority ("CMA") and Central Bank of Kuwait ("CBK") as an investment company.

The consolidated financial statements of the group for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Board of Directors on 3 February 2014. The shareholders of the company have the power to amend these consolidated financial statements at the annual general meeting.

2- SIGNIFICANT ACCOUNTING POLICIES

2.1- Basis of preparation

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the State of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all IFRS except for the International Accounting Standard IAS 39: Financial Instruments: Recognition and Measurement requirement for a 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.

These consolidated financial statements are prepared under the historical cost convention as modified by revaluation at fair value of investments at fair value through profit or loss and investments available for sale.

The consolidated financial statements are presented in Kuwaiti Dinars (KD), which is also the functional currency of the company.

2.2- Changes in accounting policies

New and amended IFRS that are issued and effective and are relevant to the group

The accounting policies are consistent with those used in the previous year except for the following new and amended IFRS:

IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (effective for annual periods beginning on or after 1 January 2013)

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The adoption of this standard has not resulted in any material impact on consolidated financial statements of the group.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2- Changes in accounting policies (continued)

IFRS 10 – Consolidated Financial Statements, IAS 27 Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013)

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure or rights, to variable returns from its involvement with the investee and 3) the ability to use its power over the investee to affect the amount of the returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This resulted in change in accounting policy for "basis for consolidation" as described in below.

The adoption of IFRS 10 resulted in the establishment of control over one of the group's investees, Gulf Gate Fund (the Fund) (previously accounted for as investments available for sale) since the group is exposed, or has rights to variable returns from its involvement with the Fund and has the ability to affect those returns through its power over the Fund. The Fund is consolidated in the group's consolidated financial statements retrospectively from the date on which the group obtained control. The effect of IFRS 10 is described in more detail below, which includes quantification of the effect on the consolidated financial statements.

IFRS 12 - Disclosure of Involvement with Other Entities (effective for annual periods beginning on or after 1 January 2013)

The standard includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. The adoption of this standard has not resulted in any significant additional disclosures in the consolidated financial statements of the group.

IFRS 13 - Fair Value measurement (effective for annual periods beginning on or after 1 January 2013)

IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the group has re-assessed its policies for measuring fair values. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the group. Additional disclosures wherever required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

IAS 27 Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013)

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation - Special Purpose Entities. The adoption of this standard has not resulted in any impact on the financial position or performance of the group.

IAS 1 Financial Statement Presentation of Items of Other Comprehensive Income (Amendment) (effective for annual periods beginning on or after 1 July 2012)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The adoption of this standard has no effect on the financial position or performance of the group and only resulted in presentation changes in statement of profit or loss and other comprehensive income.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2- Changes in accounting policies (continued)

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The adoption of this standard has not resulted in any impact on the financial position or performance of the group.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2013 did not have any material impact on the accounting policies, financial position or performance of the group.

2.3- New standards and interpretations issued but not yet effective

The following standards have been issued but are 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. The group intends to adopt those standards when they become effective. However, the group expects no significant impact from the adoption of the amendments, other than from IFRS 9, on its consolidated financial position or performance.

IFRS 9: Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the group's financial assets. The group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. On 19 November 2013, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 that introduced a new general hedge accounting and removed the 1 January 2015, mandatory effective date from IFRS 9. The new hedge accounting model significantly differs from the IAS 39 hedge accounting model in a number of aspects including eligibility of hedging instruments and hedged items, accounting for the time value component of options and forward contracts, qualifying criteria for applying hedge accounting, modification and discontinuation of hedging relationships etc. Under the amendments, entities that adopt IFRS 9 (as amended in November 2013) can choose an accounting policy of either adopting the new IFRS 9 hedge accounting model now or continuing to apply the hedge accounting model in IAS 39 for the time being.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the group, since none of the entities in the group would qualify to be an investment entity under IFRS 10.

IAS 32: Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amendment)

These amendments are effective for annual periods beginning on or after 1 January 2014.The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The group is currently assessing the impact that this standard will have on the consolidated financial position and performance.

IAS 36 Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets (Amendment)

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. Additional disclosures will be made by the group when amendment becomes effective.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3- New standards and interpretations issued but not yet effective (continued)

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (Amendment)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014.

2.4- Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiaries including special purpose entities. 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

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.

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 statement of profit or loss and other comprehensive income 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 into line with the group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

The subsidiaries of the group are as follows:

Name of the Subsidiaries	Country of incorporation	Principal activity	Percentage of holding 2013	Percentage of holding 2012
Al Awsat First Holding Company K.S.C.C.	Kuwait	Investment	100%	100%
Egypt & Middle East Brokerage Company	Egypt	Brokerage	100%	100%
Middle East Financial Brokerage Company K.S.C. ('MEFBC')	Kuwait	Brokerage	90%	90%
Gulf Gate Fund ("the Fund")	Kuwait	Fund	92%	84%
Subsidiaries under liquidation (Note 12)				
Middle East Financial Brokerage Company L.L.C.	U.A.E.	Brokerage	100%	100%
Middle East Financial Brokerage Company L.L.C.	Oman	Brokerage	100%	100%

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4- Basis of consolidation (continued)

The table below shows details of non-wholly owned subsidiaries of the group that have material non-controlling interests:

Name of the Subsidiaries	Proportion of ownership interests and voting rights		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
	2013 KD	2012 KD	2013 KD	2012 KD	2013 KD	2012 KD
MEFBC	10%	10%	48,225	2,015	1,661,984	1,598,534
The Fund	8%	16%	30,645	(23,582)	173,754	378,205
Total			78,870	(21,567)	1,835,738	1,976,739

Summarised financial information in respect of each of the group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2013		2012	
	MEFBC KD	The Fund KD	MEFBC KD	The Fund KD
Total assets	16,737,935	2,209,802	16,148,972	2,310,228
Total liabilities	195,321	11,409	294,315	8,417
Total income	1,488,643	425,008	899,090	(91,854)
Total expenses	(1,006,395)	(51,400)	(878,940)	(51,613)
Total profit for the year	482,248	373,608	20,150	(143,467)

	2013		2012	
	MEFBC KD	The Fund KD	MEFBC KD	The Fund KD
Net increase in operating activities	693,318	212,567	109,609	209,545
Net (decrease) increase in investing activities	(1,353,485)	-	9,516	-
Net increase in financing activities	-	(476,665)	-	(1,755,491)
Net (decrease) increase in cash and cash equivalents	(660,167)	(264,098)	119,125	(1,545,946)

The adoption of IFRS 10 described in note 2.1 above resulted in the following changes in the consolidated financial statements of the group:

The Fund is managed by the company as a fund manager. The factors considered by the group included the scope of decision making authority held by the company in its capacity as fund manager, removal rights held by other parties, the remuneration arrangement and exposure to variability of returns from other interest that group holds in the Fund. The group has established that they had control over the Fund as at 31 December 2010 when the group's effective holding in the Fund was 48%. Subsequently mainly due to redemptions made by the unit holders of the Fund, the group's effective holding in the Fund increased to 84% during the year ended 31 December 2012. The following adjustments were made to the consolidated financial statements for the year ended:

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4- Basis of consolidation (continued)

Impact on the consolidated statement of financial position:

	31 December 2012 KD	1 January 2012 KD
Increase in assets:		
Cash in hand and at banks	454,390	2,000,336
Investments	141,167	191,428
Other assets	(222,805)	(15,934)
Net increase in assets	372,752	2,175,830
Increase in liabilities:		
Accounts payable and other liabilities	1,186	3,405
Increase in liabilities	1,186	3,405
(Decrease) increase in equity:		
Accumulated losses	(273,832)	(199,468)
Fair valuation reserve	259,471	211,103
Non-controlling interests	385,927	2,160,790
Net increase in equity	371,566	2,172,425
Net increase in liabilities and equity	372,752	2,175,830

	2012 KD
Net decrease in income	(80,112)
Net increase in expenses	(17,824)
Net increase in loss for the year	(97,936)
Net increase in loss attributable to non-controlling interests	(23,582)

The impact on the basic and diluted earnings per share attributable to the equity holders of the company for the year ended 31 December 2012 is fils 0.30.

Notes to the Consolidated Financial Statements (continued)
At 31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (continued)
2.5- Summary of significant accounting policies
The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below:

Cash and balances with banks
Cash and balances with banks comprise cash and bank balances and short-term deposits with original maturities of three months or less.

Financial assets and liabilities
Financial assets and financial liabilities are classified as "investments at fair value through statement of income", "loans and receivables", "investments available for sale" and "financial liabilities other than at fair value through statement of income". Management determines the appropriate classification of each instrument at the time of acquisition.

Financial assets and liabilities are measured initially at fair value plus, in the case of a financial asset not at fair value through statement of income, directly attributable transaction costs. Transaction costs on investments at fair value through statement of income are expensed immediately.

Investments at fair value through profit or loss
Investments at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through statement of income. This includes all derivative financial instruments, other than those designated as effective hedging instruments. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

After initial recognition, investments at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with all changes in fair value recognised in the consolidated statement of income.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method, less any provision for impairment.

Balances with banks, term deposits, loans and advances, and certain other assets are classified as "loans and receivables".

Investments available for sale
Investments available for sale are those non-derivative financial assets that are not classified as investments at fair value through statement of income or loans and receivables.

After initial recognition, investments available for sale are measured at fair value with unrealised gains and losses recognised as other comprehensive income in a separate component of equity until the investments are derecognised or until the investments are determined to be impaired at which time the cumulative gain and loss previously reported in other comprehensive income is recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost, less any impairment.

Financial liabilities other than at fair value through statement of income
Financial liabilities other than at fair value through statement of income are measured at amortised cost using the effective interest rate method.

Loans from banks and financial institutions and certain other liabilities are classified as "financial liabilities other than at fair value through statement of income.

Notes to the Consolidated Financial Statements (continued)
At 31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (continued)
2.5- Summary of significant accounting policies (continued)
Financial assets and liabilities (continued)
Fair value
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.

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 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

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. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

For investments in equity instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

For assets and liabilities that are recognised in the 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.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Recognition and de-recognition

A financial asset or a financial liability is recognised when the group becomes a party to the contractual provisions of the instrument. All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the group receives or delivers the asset. Changes in fair value between the trade date and settlement date are recognised in the consolidated statement of income or in equity in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset (in whole or in part) is derecognised either when:

- the rights to receive the cash flows from the asset have expired;
- the group has retained its right to receive cash flows from the assets 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, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, an asset is recognised to the extent of the group's continuing involvement in the asset.

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

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, the group has a legally enforceable 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.

Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each reporting date to determine whether there is objective evidence that a specific 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. In the case of financial asset classified as investments available for sale, a significant or prolonged decline in the fair value of assets below its cost is considered in determining whether the assets are impaired. If any such evidence exists for investments available for sale, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of income, is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity investments classified as investments available for sale recognised in the consolidated statement of income are not reversed through the consolidated statement of income.

Loans and receivables 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 statement of income.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

In addition, in accordance with Central Bank of Kuwait (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.

Hedge accounting

The group makes use of non derivative financial instruments (loans from banks and financial institutions) to manage exposures to foreign currency risks including exposures arising from forecast transactions. In order to manage particular risks, the group applies hedge accounting for transactions, which meet the specified criteria for fair value hedge and hedge of net investment in foreign operations.

For the purposes of hedge accounting, hedges are classified into two categories:

a- Fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and
b- Hedge of net investment in foreign operations

Fair value hedge

The change in fair value of a recognised asset or liability or firm commitment is recognised in the consolidated statement of income. The change in fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item. Gains or losses on re-measurement of both the hedging instrument and the hedged item are recognised in the consolidated statement of income.

Hedge of net investments in foreign operations

Hedges of net investment in foreign operations, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in consolidated statement of comprehensive income while any gains or losses relating to the ineffective portion are recognised in consolidated statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in consolidated statement of comprehensive income is transferred to consolidated statement of income.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or it no longer qualifies for hedge accounting.

Investment in associates

The group's investments in its associates are accounted for using the equity method of accounting. An associate is an entity in which the group has significant influence..

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 an associate is included in the carrying amount of the investment.

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

The group's share of profit of an associate is shown on the face of the consolidated statement of profit or loss.

Where necessary, adjustments are made to bring the accounting policies in line with those of the group.

The financial statements of the associate are prepared for the same reporting period as the group.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- Summary of significant accounting policies (continued)

Investment properties

Land and buildings held for the purpose of capital appreciation or for long term rental yields and not occupied by the group is classified as investment properties.

Investment properties are measured at cost less accumulated depreciation (based on an estimated useful life of thirty years using the straight line method) and accumulated impairment.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of profit or loss in the period of retirement or when sale is completed.

For the properties which doesn't meet criteria of non –current assets held for sale and have been reclassified to investment properties, these are measured it at lower of its (a) carrying amount before it was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had it not been classified as held for sale, and (b) its recoverable amount at the date of the subsequent decision not to sell.

Intangible assets

Intangible assets acquired separately are measured at cost on initial recognition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic lives i.e. 5 years, and assessed and adjusted for impairment whenever there is an indication that an intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but are tested annually for impairment and adjusted for the same, if any.

Equipment

Equipment is stated at cost, net of accumulated depreciation and impairment losses, if any.

Capital work in progress is not depreciated. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

• Furniture and equipment	4-5	years
• Computers	4	years
• Software	7-10	years

The equipment' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

Equipment is derecognised when either it has been disposed of or when the equipment is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of equipment are recognised in the consolidated statement of income in the period of retirement or disposal.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- Summary of significant accounting policies (continued)

Non-current assets held for sale

Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Equipment and intangible assets once classified as held for sale are not depreciated or amortised.

Fair value measurement of non-financial assets

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

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.

Provision for 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 fair value less costs to sell and value in use. 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. In determining the fair value less costs to sell, an appropriate valuation model is used. An assessment is made at each reporting date to determine whether there is objective evidence that a specific asset, or a group of similar assets, may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalised, if they are directly attributable to a project, as part of projects under construction, over the period of the construction until the project concerned is completed and becomes ready for its intended use, on the basis of actual borrowings and actual expenditure incurred on the project. Capitalisation of borrowing costs ceases when substantially all activities necessary to prepare the project for its intended use are complete.

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) arising from past events and the costs to settle the obligation are both probable and reliably measurable.

Employees' end of service indemnity

Provision is made for employees' end of service indemnity in accordance with the local laws based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the liability that would arise as a result of involuntary termination of staff at the reporting date. Employees' end of service indemnity is included under 'Accounts payable and other liabilities'.

Notes to the Consolidated Financial Statements (continued)
At 31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (continued)
2.5- Summary of significant accounting policies (continued)
Foreign currency translation
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 in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Kuwaiti Dinars at rates of exchange ruling at the reporting date. Any resultant gains or losses are recognised in the consolidated statement of profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised in other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised in the consolidated statement of income are recognised in the consolidated statement of profit or loss.

Assets and liabilities (both monetary and non-monetary), of foreign operations are translated into the group's functional currency at the exchange rates prevailing at the reporting date. Operating results of such operations are translated at average exchange rates for the year. The resulting exchange differences are accumulated in other comprehensive income (foreign currency translation reserve) until the disposal of the foreign operation.

Treasury shares
Treasury shares consist of the company's own issued shares that have been reacquired by the group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, (the "treasury shares reserve"), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the general reserve and statutory reserve. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Share based payment
The company operates an equity-settled, share-based Employee Stock Option Plan (ESOP). Under the terms of the plan, share options are granted to eligible employees. The options are exercisable in future period. The fair value of the options at the date on which they are granted is recognised as an expense over the vesting period with corresponding effect to equity. The fair value of the options is determined using Black-Scholes option pricing model.

Revenue recognition
- Management fees relating to portfolios and fund management, custody and on-going advisory services are recognised as earned.
- Commission income from brokerage business is recognised when earned.
- Interest income and expense are recognised using the effective interest method taking into account the principal outstanding and the rate applicable.
- Dividend income is recognised when the right to receive payment is established.

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

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.

Notes to the Consolidated Financial Statements (continued)
At 31 December 2013

2- SIGNIFICANT ACCOUNTING POLICIES (continued)
2.6- Significant accounting judgments, estimates and assumptions
The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

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

Impairment losses on loans and receivables
The group reviews its problem loans and receivables on an annual basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Impairment of investments available for sale
The group treats investments available for sale 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 judgement and involves evaluating factors including industry and market conditions, future cash flows and discount factors.

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 ; or
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

Impairment of non-financial assets
The company's management tests annually whether non financial assets have suffered impairment. The recoverable amount of an asset is determined based on value-in-use method or fair value less cost to sell. Value in use method uses estimated cash flow projections over the estimated useful life of the asset discounted using a rate that reflect current market amounts of the time value of money and the risks specific to the amount for which further cash flow estimation has not been adjusted. The determination of cash flows and discount factors for value in use method requires significant estimation.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

3- CASH AND BALANCES WITH BANKS

	2013 KD	2012 KD (Restated)
Cash and bank balances	1,230,732	1,071,390
Short term deposits	-	1,250,404
	1,230,732	2,321,794

Certain balances included in cash and balances with banks are placed with related parties (Note 23).

4- TERM DEPOSITS

Term deposits are held with commercial banks in the region, for a period of one year, at interest rates of 1.25% (2012: 1.25%) per annum payable.

5- INVESTMENTS

	2013 KD	2012 KD (Restated)
Investments at fair value through statement of profit or loss		
Financial assets held for trading:		
Quoted equity securities	1,781,644	1,595,672
Managed funds	260,420	280,226
	2,042,064	1,875,898
Investments available for sale		
Quoted equity securities	1,722,150	4,668
Unquoted equity securities	4,086,596	4,659,602
Managed funds	9,554,579	9,469,097
	15,363,325	14,133,367
	17,405,389	16,009,265

Investments available for sale include unquoted equity securities carried at cost of KD 83,910 (2012: KD 333,910) as the fair value cannot be measured reliably.

During the year ended 31 December 2008, the group adopted amendments to IAS 39: Financial instruments: Recognition and Measurement issued by the IASB on 13 October 2008 and reclassified certain investments in funds with a fair value of KD 24,003,053 from the investments at fair value through statement of profit or loss to investments available for sale. Carrying value of these investments at 31 December 2013 was KD 7,865,659 (2012: KD 7,693,276). The group has recorded unrealised gain of KD 351,205 (2012: unrealised loss of KD 13,937) in respect of the reclassified investments in fair valuation reserve within equity during the year. Had the group not adopted the amendments to IAS 39, this unrealised gain would have been recorded in the consolidated statement of profit or loss.

Certain investments available for sale amounting to KD 10.9 million (2012: KD 10.8 million) are pledged as security against the loan (Note 13).

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

6- LOANS AND ADVANCES

	2013 KD	2012 KD
Loans to customers	7,840,399	8,124,062
Loans to staff	469,234	456,730
	8,309,633	8,580,792
Less: General provision	(8,014)	(13,871)
Less: Specific provision	(8,264)	(8,264)
	8,293,355	8,558,657

	2013 KD	2012 KD
At 1 January	22,135	86,952
Write off	-	(45,100)
Net release of excess provision	(5,857)	(19,717)
	16,278	22,135

Loans and advances include a loan amounting to KD 7,500,000 which is secured by a real estate property. The title of the property was transferred in the company's name to secure the repayment of the loan and accordingly is considered as collateral against the loan. The loan, which is past due, is adequately covered by the collateral. This debtor is under the Financial Stability Law and the management is pursuing various courses of action to recover the loan including through the liquidation of the property.

7- INVESTMENT IN ASSOCIATE

The company has 30% (2012: 30%) interest in Middle East Financial Investment Company, an unquoted company incorporated in Kingdom of Saudi Arabia engaged in financial services activities.

The share in assets, liabilities, operating income and result of the associate for the year ended 31 December are as follows:

	2013 KD	2012 KD
Share of associate's assets and liabilities:		
Current assets	1,829,962	2,286,534
Non-current assets	11,587,564	11,671,956
Current liabilities	(3,335,923)	(2,978,074)
Non-current liabilities	(173,755)	(1,743,074)
Net assets	9,907,848	9,237,342
Share of associate's income and results		
Operating income	2,278,172	1,967,292
Profit for the year	567,217	496,302

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

8- INVESTMENT PROPERTIES

During the year group has changed its plan to sell investment properties which were classified as non-current assets held for sale since September 2011 and hence has been reclassified as investment properties. These properties represents business units in commercial complex.

As at 31 December 2013, the fair value of the investment properties is KD 1,369,165. Investment properties were revalued by an independent valuer using market comparable approach that reflects recent transaction prices for similar properties and is therefore classified under level 2. In estimating the fair value of investment properties, the highest and best use is their current use.

Movement for the year is as follows:

	2013 KD	2012 KD
Reclassified from non-current assets held for sale	904,112	-
Depreciation charged for the year	(16,956)	-
At 31 December	887,156	-

9- OTHER ASSETS

	2013 KD	2012 KD
Dues from unsettled trades	556,211	338,839
Accrued management fee	447,265	444,818
Receivable from disposal of investment	4,343,738	3,977,707
Prepaid expenses	127,112	78,314
KSE Broker deposit	250,000	-
Others	400,387	373,679
	6,124,713	5,213,357
Less: Provision for doubtful receivables	(3,977,707)	(3,977,707)
	2,147,006	1,235,650

10- INTANGIBLE ASSETS

Intangible assets represent brokerage licence acquired from Kuwait Stock Exchange for KD 12,500,000 (2012: KD 12,500,000). This licence has indefinite useful life.

Impairment testing

The group determines whether brokerage licenses are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units (CGUs) to which these items are allocated. The recoverable amount is determined based on higher of value-in-use calculations or fair value less selling cost. These calculations use pre-tax cash flow projections over a five year period based on historical pattern of trade volume and a relevant terminal growth rate. Terminal growth beyond the five year period has been based extrapolating using a growth rate which does not exceed the long term average growth rate of Kuwait. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU.

The group has performed a sensitivity analysis by varying these input factors by a reasonably possible margin and assessing whether the change in input factors result in the intangible assets being impaired. Based on the above analysis, there are no indications that intangible assets are impaired.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

11- EQUIPMENT

	Furniture and equipment KD	Computers KD	Software KD	Capital work in progress KD	Total KD
Cost					
At 1 January 2013	1,729,480	1,844,284	2,072,981	36,339	5,683,084
Additions	3,318	2,300	3,152	61,089	69,859
Transfers	40,951	(62,353)	69,480	(48,078)	-
Disposals	(47,661)	(464,863)	(40,859)	-	(553,383)
Foreign currency adjustment	(1,106)	(457)	(378)	-	(1,941)
At 31 December 2013	**1,724,982**	**1,318,911**	**2,104,376**	**49,350**	**5,197,619**
Accumulated depreciation					
At 1 January 2013	1,693,574	1,324,337	1,205,081	-	4,222,992
Depreciation	48,762	224,968	144,198	-	417,928
Disposals	(47,574)	(463,982)	(27,874)	-	(539,430)
Foreign currency adjustment	(908)	(412)	(349)	-	(1,669)
At 31 December 2013	**1,693,854**	**1,084,911**	**1,321,056**	-	**4,099,821**
Net book value at 31 December 2013	**31,128**	**234,000**	**783,320**	**49,350**	**1,097,798**

	Furniture and equipment KD	Computers KD	Software KD	Capital work in progress KD	Total KD
Cost					
At 1 January 2012	1,772,174	1,862,831	2,008,009	-	5,643,014
Additions	3,535	1,439	42,098	68,290	115,362
Transfers	8,525	326	23,100	(31,951)	-
Disposals	(54,093)	(19,048)	-	-	(73,141)
Foreign currency adjustment	(661)	(1,264)	(226)	-	(2,151)
At 31 December 2012	1,729,480	1,844,284	2,072,981	36,339	5,683,084
Accumulated depreciation					
At 1 January 2012	1,525,789	1,105,304	1,058,076	-	3,689,169
Depreciation	217,629	238,232	147,152	-	603,013
Disposals	(49,431)	(18,673)	-	-	(68,104)
Foreign currency adjustment	(413)	(526)	(147)	-	(1,086)
At 31 December 2012	1,693,574	1,324,337	1,205,081	-	4,222,992
Net book value at 31 December 2012	35,906	519,947	867,900	36,339	1,460,092

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

12- DISCONTINUED OPERATIONS

Pursuant to the decision taken by the Board of directors in 2011, the company has carried out the liquidation of its subsidiaries namely, Kuwait and Middle East Financial Investment Company Jordan and Online Soft Computer Systems Company K.S.C.C., and is in final stages of liquidating another subsidiary in U.A.E. namely, Middle East Financial Brokerage Company L.L.C. and in Oman namely Middle East Financial Brokerage Company L.L.C. Accordingly, the non-current assets of these subsidiaries were classified as non-current assets held for sale.

The results of the discontinued operations are as follows:

	2013 KD	2012 KD
Income	81,851	38,153
Expenses	-	(38,153)
Reversal of provision (net)	50,989	141,063
Profit for the year from discontinued operations	132,840	141,063
Taxation	(4,649)	-
	128,191	141,063
Attributable to:		
Shareholders of the company	121,458	141,063
Non-controlling interests	6,733	-
	128,191	141,063
Earnings per share		
Basic and diluted earnings per share from discontinued operations (fils)	0.5	0.5

During the current year properties which were classified as non-current asset held for sale till previous year has been reclassified to investment properties by the group.

The net cash flows incurred by the disposal group:

	2013 KD	2012 KD
Operating	-	(1,782,051)
Investing	-	133,106
Net cash outflow	-	(1,648,945)

13- LOANS FROM BANK

Loans from bank represents secured loans from the parent company, secured by mortgaging assets of the company comprising shares of investment in subsidiaries (Note 2.3), certain investments available for sale (Note 5), loans and advances (Note 6) and investment in an associate (Note 7). The loans were carried at effective interest rate of 3% (2012: 3.51%).

Hedge of net investments in foreign operations

Included in loans from banks and financial institutions are loans of KD 4,393,616 (2012: KD 4,378,765) denominated in foreign currency USD 15,551,247 (2012: USD 15,551,247), which have been designated as a hedge of the net investments in certain foreign operations.

The loans are being used to hedge the group's exposure to foreign exchange risk on these investments. Gains or losses on the retranslation of loans from banks and financial institutions are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in certain foreign operations. Foreign exchange loss arising on translation of the hedging instruments (loans) amounting KD 14,733 (2012: loss of KD 48,908) were taken directly to other comprehensive income. There is no hedge ineffectiveness at 31 December 2013.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

14- ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2013 KD	2012 KD
End of service benefit	1,563,186	1,360,524
Other staff payables	282,939	276,302
Loan interest payable	166,488	272,357
Brokerage payables	7,545	71,759
Others	2,141,588	2,100,774
	4,161,746	4,081,716

15- SHARE CAPITAL

The authorised, issued and paid capital of the company is as follows:

	2013 KD	2012 KD
Authorised:265,454,991 shares of 100 fils each	26,545,499	26,545,499
Issued and fully paid up: 263,814,991 shares of 100 fils each	26,381,499	26,381,499

The issued and fully paid up share capital includes 15,837,638 shares (2012: 15,837,638 shares) on account of share option plan for employees.

16- RESERVES

Share premium and treasury shares reserve

The share premium represents premiums collected upon issuing new shares to employees under the Employee Stock Option Plan. The balances of share premium and treasury shares reserve are not available for distribution.

Statutory reserve

As required by the Companies Law and the company's Articles of Association, 10% of the profit for the year attributable to shareholders of the company before directors' fees and contribution to Zakat, Kuwait Foundation for Advancement of Science (KFAS) and National Labour Support Tax (NLST) is to be transferred to statutory reserve. The company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

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

No transfer has been made to the reserve during the year and in previous years on account of accumulated losses incurred by the company.

General reserve

In accordance with the company's Articles of Association, 10% of the profit for the year attributable to shareholders of the company before directors' fees and contribution to Zakat, KFAS and NLST is to be transferred to general reserve. Such annual transfers may be discontinued by a resolution of the company's shareholders general assembly upon a recommendation by the Board of Directors. General reserve is available for distribution.

As per the instruction of CBK dated 20 November 2008, the minimum general provision in excess of 1% on cash facilities and 0.5% on non-cash facilities amounting to KD 103,353 was recognised in the consolidated statement of income and transferred to general reserve as on 31 December 2008, which is not available for distribution.

No transfer has been made to the reserve during the year and in previous years on account of accumulated losses incurred by the company.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

17- TREASURY SHARES

	2013	2012
Number of own shares	2,623,500	2,623,500
Percentage of issued shares	1%	1%
Book value (KD)	1,174,880	1,174,880
Market value (KD)	178,398	102,317

18- INTEREST INCOME

	2013 KD	2012 KD
Term deposits and bank balances	7,777	21,502
Loans and advances	48,356	69,427
	56,133	90,929

19- PROVISIONS AND IMPAIRMENT LOSSES

	2013 KD	2012 KD
Reversal of provision on loans and advances (Note 6)	(5,857)	(19,717)
Provisions on other assets	35,484	78,944
	29,627	59,227

20- TAXATION

	2013 KD	2012 KD
NLST	36,525	-
Zakat	13,625	-
	50,150	-

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

21- BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share for the year attributable to the shareholders of the company presented in the consolidated statement of profit or loss is calculated as follows:

	2013	2012
Profit (loss) for the year attributable to the shareholders of the company (KD)	1,160,721	(1,164,533)
Weighted average number of shares outstanding during the year	261,191,491	261,191,491
Basic and diluted earnings (loss) per share (fils)	4.4	(4.5)

The weighted average number of shares outstanding during the year is calculated after adjusting for treasury shares.

	2013	2012
Weighted average number of issued and paid up shares	263,814,991	263,814,991
Less: Weighted average number of treasury shares	(2,623,500)	(2,623,500)
Weighted average number of shares	261,191,491	261,191,491

Basic and diluted earnings (loss) per share from continuing operations

	2013	2012
Profit (loss) for the year from continuing operations attributable to the shareholders of the company (KD)	1,039,263	(1,305,596)
Weighted average number of shares outstanding during the year	261,191,491	261,191,491
Basic and diluted earnings(loss) per share from continuing operations (fils)	4.0	(5.0)

22- EMPLOYEE SHARE OPTION PLAN

In accordance with the approval granted by the annual general assembly meeting of the shareholders held on 23 May 2011, a grant upto 1,640,000 shares as share option plan for employees (2011 Plan) was approved. The annual general assembly meeting of the shareholders held on 22 May 2012 approved the allocation of further 2,790,000 shares. The option price was fixed at 100 fils per share and the employees can exercise the option till 30 April 2015.

As at 31 December 2013, total outstanding options of 4,430,000 shares were out of the money and none of the options were exercised as of that date.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

23- RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, managed funds, directors and key management personnel of the group, and entities controlled, jointly controlled or significantly influenced by such parties. All related party transactions are carried out on terms approved by the company's management.

The related party transactions included in the consolidated financial statements are as follows:

	2013 KD	2012 KD
Related party balances		
Cash placed with the parent company (Note 3)	**1,155,620**	593,725
Investments	**8,266,608**	7,906,423
Receivable from the parent company	**44,740**	36,452
Receivable from other related parties	**659,055**	118,148
Loans and advances to key management personnel	**405,763**	342,245
Loans taken from the parent company (Note 13)	**24,034,754**	24,138,765
Guarantees taken from the parent company	**500**	1,250
Investments and funds managed in a fiduciary capacity	**40,341,112**	27,952,725
Related party transactions		
Management fees earned	**88,273**	49,000
Interest income	**14,293**	23,808
Interest expense on loans taken from the parent company	**(706,621)**	(852,967)
Key management compensation		
Salaries and other short term benefits	**551,239**	437,859

24- COMMITMENTS AND CONTINGENT LIABILITIES

	2013 KD	2012 KD
Commitments		
Uncalled capital contributions relating to investments available for sale	**81,824**	123,524
Contingent liabilities		
Guarantees	**251,250**	251,250

Guarantees issued by the group noted above exclude a guarantee of KD 43.09 million (2012: KD 42.94 million) because this guarantee is backed by an irrevocable counter guarantee of an equal amount issued in favour of the group by a sovereign authority of Kuwait.

25- FIDUCIARY ASSETS

Fiduciary assets comprise investments and funds managed by the company on behalf of clients. These are not assets of the company and accordingly are not included in the consolidated financial statements. As at 31 December 2013, total fiduciary assets managed by the company amounted to KD 591 million (2012: KD 583 million). Management fee of KD 2,061,494 (2012: KD 2,018,830) has been recognised by the company for management of fiduciary assets.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

26- MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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 investments, investment properties, non-current assets held for sale and investment in associates is based on management's estimate of liquidation of these financial assets.

The maturity profile of the assets and liabilities at 31 December is as follows:

	Up to 1 month		1 to 3 months		3 to 12 months		Over one year		Total	
	2013 KD	2012 KD	2013 KD	2012 KD	2013 KD	2012 KD	2013 KD	2012 KD	2013 KD	2012 KD
Assets										
Cash and balances with banks	**1,230,732**	2,321,794	-	-	-	-	-	-	**1,230,732**	2,321,794
Term deposits	**50,750**	-	-	-	-	50,000	-	-	**50,750**	50,000
Investments	**5,083,478**	4,700,215	**2,042,063**	1,875,898	**1,390,591**	1,496,531	**8,889,257**	7,936,621	**17,405,389**	16,009,265
Loans and advances	-	-	-	-	**8,250,785**	8,558,657	**42,570**	-	**8,293,355**	8,558,657
Investment in an associate	-	-	-	-	-	-	**9,907,848**	9,237,342	**9,907,848**	9,237,342
Investment properties	-	-	-	-	-	-	**887,156**	-	**887,156**	-
Other assets	**1,227,000**	497,366	**77,273**	96,180	**592,733**	642,104	**250,000**	-	**2,147,006**	1,235,650
Intangible assets	-	-	-	-	-	-	**12,500,000**	12,500,000	**12,500,000**	12,500,000
Equipment	-	-	-	-	**5,732**	-	**1,092,066**	1,460,092	**1,097,798**	1,460,092
Non-current assets held for sale	-	-	-	853,123	-	-	-	-	-	853,123
	7,591,960	7,519,375	**2,119,336**	2,825,201	**10,239,841**	10,747,292	**33,568,897**	31,134,055	**53,520,034**	52,225,923
Liabilities										
Loans from bank	-	-	-	-	**24,034,754**	-	-	24,138,765	**24,034,754**	24,138,765
Accounts payable and other liabilities	**166,477**	308,767	**166,432**	202,059	**570,452**	414,514	**3,258,385**	3,156,376	**4,161,746**	4,081,716
	166,477	308,767	**166,432**	202,059	**24,605,206**	414,514	**3,258,385**	27,295,141	**28,196,500**	28,220,481
Net liquidity gap	**7,425,483**	7,210,608	**1,952,904**	2,623,142	**(14,365,365)**	10,332,778	**30,310,512**	3,838,914	**25,323,534**	24,005,442

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

27- SEGMENT INFORMATION

The group is organised into segments that engage in business activities which earns revenue and incurs expenses. These segments are regularly reviewed by the chief operating decision maker for resource allocation and performance assessment. For the purposes of segment reporting, the management has grouped the business units into the following operating segments:

- Asset management: engaged in providing third party fund and portfolio management services on a fiduciary basis.
- Brokerage and online trading: engaged in on-line and brokerage services across Middle East and North Africa (MENA) and United States of America (USA) based stock exchanges.
- Credit operations: engaged in providing margin loans to the clients trading in Kuwait Stock Exchange and commercial loans to the clients.
- Investment & treasury: engaged in money market placements, real estate activities and proprietary trading in equity stocks and funds across Gulf Cooperation Countries (GCC) and International markets.

Segment revenue and expenses includes operating revenue and expenses directly attributable to a segment. Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment.

Segment information for the year ended 31 December is as follows:

	Asset management KD	Brokerage & online trading KD	Credit operations KD	Investment & treasury KD	Others KD	Total KD
2013						
Segment revenue	2,486,016	1,995,438	56,131	1,411,208	-	5,948,793
Segment expenses	(1,195,189)	(1,407,986)	(14,625)	(2,144,465)	-	(4,762,265)
Reversal/provisions and impairment losses	-	-	5,857	(35,484)	-	(29,627)
Segment results - continuing operations	1,290,827	587,452	47,363	(768,741)	-	1,156,901
Segment assets	2,814,921	13,726,615	8,516,958	28,461,540	-	53,520,034
Segment liabilities	(393,659)	(217,437)	(7,500,000)	(18,490,205)	(1,595,199)	(28,196,500)
	2,421,262	13,509,178	1,016,958	9,971,335	(1,595,199)	25,323,534

	Asset management KD	Brokerage & online trading KD	Credit operations KD	Investment & treasury KD	Others KD	Total KD
2012						
Segment revenue	1,973,341	1,467,185	88,718	395,916	-	3,925,160
Segment expenses	(1,182,288)	(1,679,946)	(13,680)	(2,317,182)	-	(5,193,096)
Reversal/provisions and impairment losses	-	-	19,718	(78,945)	-	(59,227)
Segment results - continuing operations	791,053	(212,761)	94,756	(2,000,211)	-	(1,327,163)
Segment assets	2,933,747	13,722,966	8,795,998	26,773,212	-	52,225,923
Segment liabilities	(383,271)	(277,742)	(7,500,000)	(18,379,318)	(1,680,150)	(28,220,481)
	2,550,476	13,445,224	1,295,998	8,393,894	(1,680,150)	24,005,442

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

28- FAIR VALUES OF FINANCIAL INSTRUMENTS

In the opinion of the group's management, the carrying amounts of financial assets and liabilities approximate their fair values, except for certain unquoted equity instruments classified as investments available for sale (Note 5).

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

	Level: 1 KD	Level: 2 KD	Total KD
2013			
Investments at fair value through profit or loss			
Equity securities and managed funds	1,804,200	237,864	2,042,064
Investments available for sale			
Equity securities	1,722,150	4,002,686	5,724,836
Managed funds	5,083,478	4,471,101	9,554,579
	6,805,628	8,473,787	15,279,415

	Level: 1 KD	Level: 2 KD	Total KD
2012			
Investments at fair value through profit or loss			
Equity securities and managed funds	1,617,810	258,088	1,875,898
Investments available for sale			
Equity securities	4,668	4,325,692	4,330,360
Managed funds	4,700,215	4,768,882	9,469,097
	4,704,883	9,094,574	13,799,457

For financial instruments carried at amortized cost and fair values are not materially different from their carrying values and is used only for disclosure purpose. Fair value of such financial instruments are classified under level 3 determined based on discounted cash flow basis, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

29- RISK MANAGEMENT

The group in the normal course of business uses various types of financial instruments. Due to this, the group is exposed to variety of financial risks which are: credit risk, liquidity risk and market risk. Market risk is being subdivided into interest rate risk, equity price risk, currency risk and prepayment risk. The group's risk management team focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance.

Risk management is carried out by senior management under the policies that are approved by the Board of Directors. The senior management is responsible for the independent review of risk management and the control environment.

The use of financial instruments also brings with it associated inherent risks. The group recognises the relationship between returns and risks associated with the use of financial instruments and the management of risks forms an integral part of the group's strategic objectives.

The strategy of the group is to maintain a strong risk management culture and manage the risk/reward relationship within and across each of the group's major risk-based lines of business. The group's risk management policies are designed to identify and analyse these risks, to set appropriate controls and to monitor risks by means of reliable and up to date information system. The group continuously reviews its risk management policies and practices to ensure that it is not subject to large asset valuation or earnings volatility.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

29- RISK MANAGEMENT (continued)

29.1- 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 is exposed to credit risk on bank balances, term deposits, loans and advances and other outstanding receivables. The maximum exposure to credit risk is the carrying amount as at the reporting date.

The group has policies and procedures in place to limit the amount of credit exposure to any counter party. The group attempts to control credit risk by monitoring credit exposures, limiting transactions with individual counterparties, and continually assessing the creditworthiness of counterparties.

Gross maximum exposure to credit risk

The table below shows the gross maximum exposure to credit risk across financial assets before taking into consideration the effect of credit risk mitigation.

	2013 KD	2012 KD
Bank balances	1,223,210	2,314,185
Term deposits	50,750	50,000
Loans and advances	8,293,355	8,558,657
Other assets (excluding prepaid expenses)	2,019,894	1,157,336
Gross maximum credit risk exposure	11,587,209	12,080,178

The maximum credit exposure to any single client or counterparty was KD 7,500,000 (2012: KD 7,500,000) before taking account of collateral or other credit enhancements.

Collateral and other credit enhancements

Loans and advances are secured against property, investments in quoted and unquoted securities and balances held as fiduciary portfolios, on behalf of the borrowers, managed by the group. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

The group can sell the collateral in case of default by the borrower in accordance with the agreements entered with the borrowers. The group has an obligation to return the collateral on the settlement of the loan or at the closure of the borrowers' portfolio with the group.

The fair value of collateral that the group holds relating to loans and advances and other assets amounts to KD 12,414,734 (2012: KD 13,037,153).

Risk concentration of 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 group seeks to manage its credit risk exposure through diversification of lending activities, to avoid undue concentrations of risks with individuals or groups of customers in specific industries or business. It also obtains security when appropriate. All the loans are granted after assessing the credit quality of customers and taking into account their portfolio position, in case of margin loans, and in case of commercial loans the collateral which will be the shares traded on Stock Exchanges. All these collaterals are constantly monitored by the respective departments.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

29- RISK MANAGEMENT (continued)

29.1- Credit risk (continued)

Risk concentration of maximum exposure to credit risk (continued)

The group's gross maximum exposure to credit risk, before taking into account any collateral held or credit enhancements, can be analysed by the geographical regions and industry sectors as follows:

	Assets		Contingent liabilities and commitments	
	2013 KD	2012 KD	2013 KD	2012 KD
Geographic region:				
Kuwait	11,368,642	10,526,895	251,250	251,250
Other Middle East*	179,155	1,491,102	-	-
Rest of the World	39,412	62,181	81,824	123,524
	11,587,209	12,080,178	333,074	374,774
*Other Middle East countries include GCC countries, Jordan and Egypt.				
Industry sector:				
Banks and financial institutions	9,969,614	10,357,200	333,074	374,774
Other	1,617,595	1,722,978	-	-
	11,587,209	12,080,178	333,074	374,774

Credit quality of financial assets that are neither past due nor impaired

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities, the group has internal credit committees which are composed of competent professional staff and which have as their purpose the study and evaluation of the existing credit facilities of each customer of the group. These committees are required to identify any abnormal situations and difficulties associated with a customer's position, which might cause the loan to be classified as irregular and to determine an appropriate provisioning level.

The credit quality of all financial assets exposed to credit risk that were neither past due nor impaired is classified as standard grade.

Analysis of past due but not impaired financial assets

As at 31 December 2013, loans and advances exposed to credit risk of KD 7,713,984 (2012: KD 7,713,984) were past due but not impaired.

Impaired financial assets

As at 31 December 2013, other assets, and loans and advances exposed to credit risk of KD 3,985,971 (2012: KD 3,985,971) were impaired against which the group carries a provision of KD 3,985,971 (2012: KD 3,985,971).

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

29- RISK MANAGEMENT (continued)

29.2- Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash and balances with banks, and readily marketable securities. Due to the dynamic nature of business, the group's treasury department maintains flexibility in funding by maintaining available funds under various credit lines. Management monitors rolling forecasts of the group's liquidity reserves on the basis of expected cash flows. 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 at 31 December was as follows:

	Up to 1 month		1 to 3 months		3 to 12 months		Over one year		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Financial liabilities	**KD**	KD	**KD**	KD	**KD**	KD	**KD**	KD	**KD**	KD
Loans from banks	**-**	-	**122,312**	-	**24,213,335**	529,982	**-**	24,691,378	**24,335,647**	25,221,360
Accounts payable and other liabilities	**166,477**	307,581	**166,432**	202,059	**570,452**	414,514	**3,258,385**	3,156,376	**4,161,746**	4,080,530
Total undiscounted financial liabilities	**166,477**	307,581	**288,744**	202,059	**24,783,787**	944,496	**3,258,385**	27,847,754	**28,497,393**	29,301,890
Contingent liabilities and commitments	**50,750**	750	**-**	50,000	**200,500**	200,500	**81,824**	123,524	**333,074**	374,774

Refer to Note 26 'Maturity analysis of assets and liabilities' for maturities of the financial liabilities shown above; which exclude future interest payments.

29.3- Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument 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.

29.3.1- Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from the possibility that changes in interest rates will affect the value of the underlying financial instruments. The group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or reprice in a given period. The group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The group is exposed to interest rate risk on its interest bearing assets and liabilities which include balances with banks, term deposits, loans and advances, and loans from banks and financial institutions.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

29- RISK MANAGEMENT (continued)

29.3- Market risk (continued)

29.3.1- Interest rate risk (continued)

The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in interest rates, with all other variables held constant.

	Increase of 25 basis points	
	Profit/(loss)	
Currency	**2013**	2012
	KD	KD
Kuwaiti Dinar	**(29,034)**	(29,321)
US Dollar	**(10,320)**	(9,574)

Sensitivity to interest rate movements will be on a symmetric basis, as financial instruments giving rise to non-symmetric movements are not significant.

29.3.2- Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the direct investment department of the group. The equity price risk exposure arises from the group's investment portfolio. The group manages this through diversification of investments in terms of geographical distribution and industry concentration. Diversification of the portfolio is done, keeping in mind the group's policies and the legal requirements of State of Kuwait.

The effect on equity as a result of a change in the fair value of the equity instruments due to a reasonable possible change in the equity indices, with all other variables held as constant is as follows:

		2013		2012	
Market indices	**Increase in equity price %**	**Effect on profit KD**	**Effect on equity KD**	Effect on loss KD	Effect on equity KD
Kuwait Index	10%	**42,685**	**609,871**	37,872	504,780
Other GCC Indices	10%	**145,284**	**-**	128,490	-

Sensitivity to equity price movements will be on a symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

29.3.3- Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The group operates regionally and internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and GCC currencies.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2013

29- RISK MANAGEMENT (continued)

29.3- Market risk (continued)

29.3.3- Foreign currency risk (continued)

Currency risk is managed primarily through borrowings in the relevant foreign currencies. The group's exposure to currency risk is equal to the carrying amount of net assets denominated in foreign currencies.

Net assets denominated in foreign currencies

As at the reporting date, the group had the following significant net asset exposures denominated in foreign currencies:

	2013 KD	2012 KD
US Dollar	(2,281,869)	(2,408,290)
GCC currencies	13,529,428	13,500,291
Other currencies	74,360	286,404
	11,321,919	11,378,405

The effect on loss (due to change in the fair value of monetary assets and liabilities), as a result of change in currency rate, with all other variables held constant is shown below:

	Decline in currency rate by 5% Profit/(loss)	
	2013 KD	2012 KD
US Dollar	193,352	201,667
GCC currencies	(73,151)	(106,293)
Other currencies	(3,431)	(7,125)

29.3.4- 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 significantly exposed to prepayment risk.

30- 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 to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the year ended 31 December 2013.

The group monitors capital using a gearing ratio, which is net debt divided by total capital. The group includes within net debt, interest bearing loans from bank and other financial institutions, other liabilities, less cash and balances with bank and term deposits. Total capital represents equity attributable to the shareholders of the company.