كميفك
KMEFIC

Annual Report 2016

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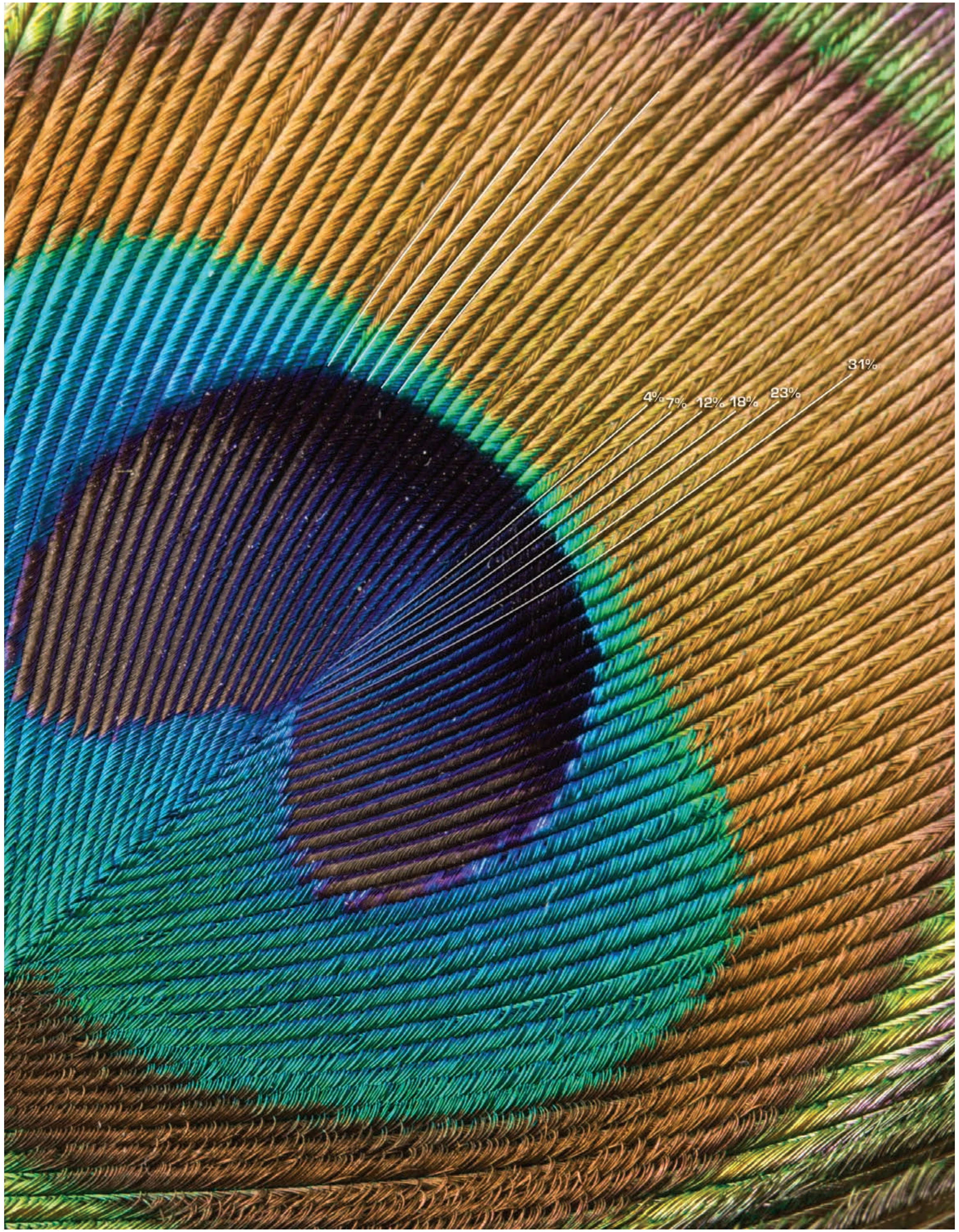
Crown Prince of the State of Kuwait

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



Chairman's Message

Dear Shareholders,

The year 2016 was characterized by extreme volatility due to a number of moving factors, the markets were mainly affected by oil prices and global political shocks. The first half of 2016 saw an extended period of low oil prices which caused several GCC markets to experience near historical lows. In addition, global political shocks such as Brexit and the US elections affected the global marketplace both negatively and positively. GCC markets did however rally on talks of an agreement in November 2016 to cut oil production which gave a strong boost to GCC markets particularly in the 4th quarter. Following the late rally all seven major GCC markets recovered from the first half slump and closed with positive gains.

Oil prices touched historically low levels during the first half of 2016, however an agreement to cut oil production led by Saudi Arabia pushed the price of oil up 52.4% making it the top performing commodity for 2016.

Trading across GCC markets declined in 2016. The total value traded on the GCC exchanges declined by almost 26. 6%, owing to a fall in trading activities across members due to weaker sentiments over oil prices during the first half of the year.

The Year 2016 was a mixed year for Kuwait and the GCC region as the late rally helped boost markets causing an increase in market capitalization despite a decrease in trading activities. The combined market capitalization of GCC bourses increased 4.9%YoY to USD 940.3 bn in 2016 from USD 896 bn in 2015.

The year 2016 also continued last year's push for fiscal consolidation and fiscal reform in the region. Primarily due to multiple countries facing deficits in addition to rate hikes in the United States.

The IMF report on Kuwait, issued on January 6th, 2016, states economic activity in the non-oil sector has expanded at a slower pace due to the effects of lower oil prices. The financial sector has remained healthy and credit conditions are favorable. As of June 2016, banks had high capital adequacy ratios, high profitability, low nonperforming loans, and high loan-loss provisioning.

Kuwait's current near-term economic outlook is positive, as non-oil growth is expected to grow over the medium term, supported by the Kuwait development plan. The fiscal position is projected to improve modestly. The main downside risk that the country faces would be a sustained drop in oil prices and setbacks on fiscal consolidation which would lead to higher financing needs. However, the country is well positioned to face "lower for longer" oil prices should they be required to.

Stock Market Performance

The sharp fall in oil prices weighed on investor sentiments shifting very negatively throughout the first half of the year. Saudi Arabia's decision to agree to a production cut rallied markets in the latter half of the year most notably in the 4th quarter.

2016 started on a negative note for most GCC markets with major markets reporting negative market indicators which were sustained for the majority of the year. With the notable exception of the DFM which was the best positioned market to sustain performance during the period of low oil prices due to a diversified economy. However, the rally in oil prices in the 4th quarter led to a reversal of market indices as all seven major GCC markets ended the year with positive YTD figures. All the equity markets in the GCC ended in green zone with Dubai showing the greatest gain at 12.1%, followed by Oman at 7.0%. Abu Dhabi and Saudi Arabia gained 5.6% and 4.3% respectively. Kuwait closed the year up 2.4%. Bahrain and Qatar were flat at 0.1% and 0.4% respectively.

Additionally, during 2016 the Kuwait Stock Exchange was privatized and rebranded as Boursa Kuwait with the goal to develop and support the Kuwaiti equity markets.

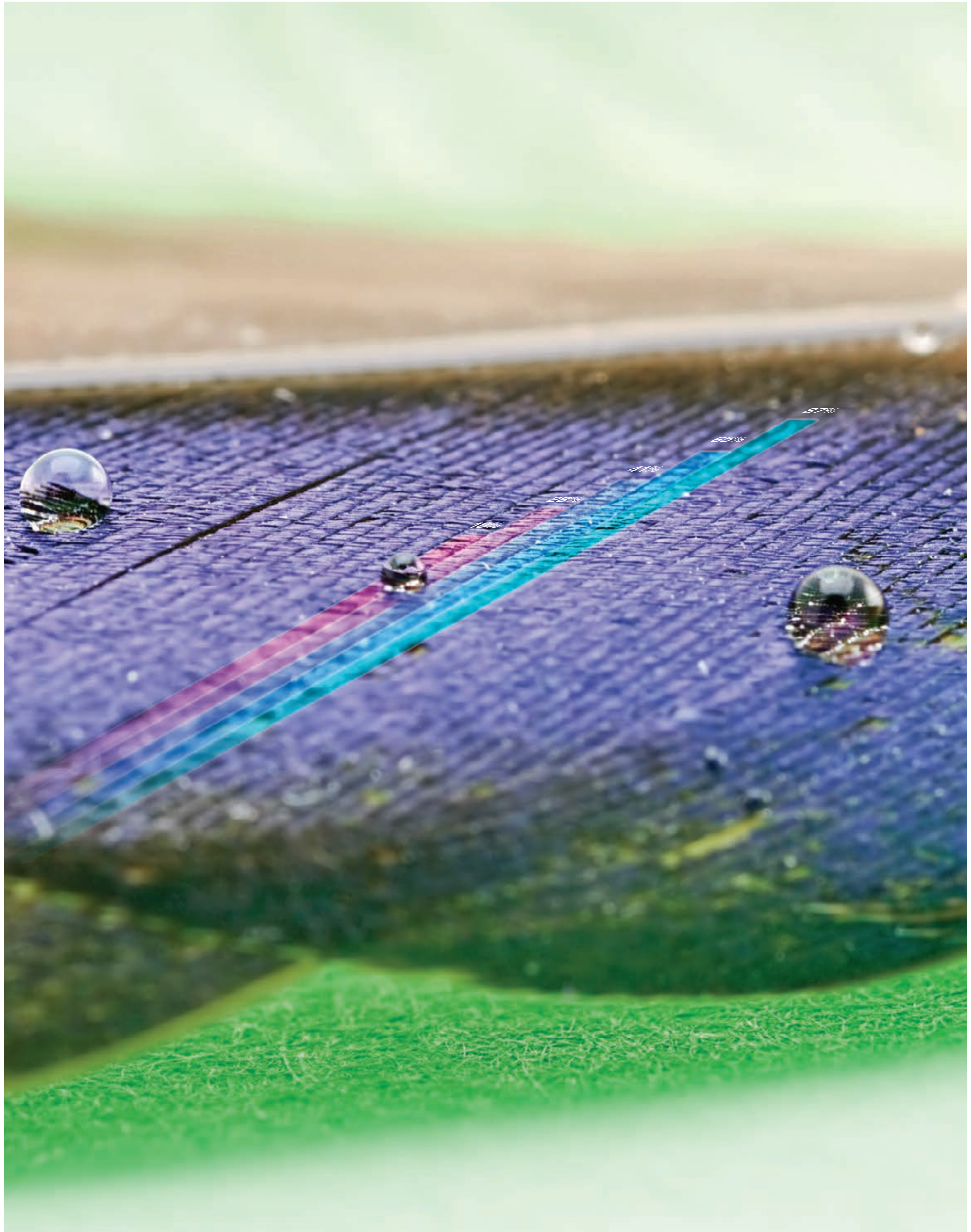
Company's performance

With significant volatility in stock markets across the GCC marked by positive performance during the first half of the year followed by a steep declined during the latter half, KMEFIC closed the year in red despite of steps taken to reduce costs and the loan liability to turn around the performance.

Despite, having very adverse market conditions in Kuwait Stock Market with brokerage volumes dropping very sharply by 27%, the company's total revenue excluding one off gains from sale of assets KD 1.0 million earned in 2015, declined marginally from KD 3.3 million in 2015 to KD 3.2 million in 2016. Further, current year performance is also affected due to sale of it's associate company MEFIC Capital in Saudi Arabia which resulted in loss of revenue from MEFIC.

On operating expenses side, the company achieved 33% savings by reducing the total expenses to KD 2.87 million from KD 4.28 million in the year before. However, due to significant charge on account of provision for loans and impairment of investment and brokerage license in Kuwait stock market, aggregating KD 5.7 million, the company reported net loss of KD 5.4 million.

The aforementioned factors resulted in the overall decline in the company's profitability and the net loss attributable to its shareholders was KD 5.19 Million as compared to a loss of KD 2.42 million for the year 2015. This translated into basic and diluted loss per share of 19.9 fils in 2016 compared to basic and diluted loss per share of 9.3 fils during 2015.



Chairman's Message (continued)

Asset Management

The year end results for the performance of GCC and Kuwaiti shares' strategies of Kuwait & Middle East Financial Investment Company ("KMEFIC") were mixed as prolonged periods of inactivity stemming from a very difficult start of the year were offset slightly only in the latter stages of the fourth quarter after a rise in the price of oil due to OPEC agreements, caused a very late rally in regional stock markets. In terms of the domestic market, the rally barely managed to overturn volatile and negative market conditions that occurred during the first 10 months of the year. Regional markets with the exception of the DFM and ADX also suffered primarily due to a prolonged period of low oil prices. However, the Regional markets especially Saudi Arabia rallied exceptionally after the aforementioned OPEC deal. The portfolio and fund manager managed to reduce the risk of investing in the bear market and realized positive gains in the late rally of the end of the year.

With respect to the services of local derivatives, the Assets Management team in KMEFIC succeeded to realize consistent performance for the year 2016, despite the negative market performance and the low market liquidity for the start of the year. Nevertheless, the team continued in its success to realize relatively fixed return over the past seven years.

As for the global investment performance, the firm's manager and allocation selection helped navigate a difficult year especially in terms of macro policy shocks such as the Brexit which made global investments difficult to manage for the year. Overall the global portfolios managed to achieve outstanding performance in select asset classes which helped mitigate flat performances from other asset classes.

KMEFIC and its associates have maintained a consistent strategy to provide innovative products and strategies for the firm's local and regional clients. Furthermore, the firm strives to maintain stable asset management and cooperate with our associates and affiliates to realize our common objectives in investment. KMEFIC believes with the new direction from the CMA and Boursa Kuwait to introduce new international standard products, the firm will be well placed to be among the leaders of the new products.

Brokerage Performance:

The Brokerage activities are managed primarily from the Online trading platform "Alawsat.com" and by our subsidiary Middle East Financial Brokerage Company "MEFBC-Kuwait". KSE trading volume for 2016 was KD 5.74 bn compared to KD 7.89 bn during 2015. As a result of these declines in market volumes, KMEFIC's commission revenue fell from KD 0.94 million in the previous year to KD 0.82 million during the year 2016. The weighted index of Kuwait Stock Exchange weighted index dropped 0.4% and the price index was higher by 2.4% in 2016. Meanwhile, the management remained focused on its strategy of attracting special segment of customers and ensuring diversification between portfolios, funds and individuals. MEFBC is in the process of implementing its order management system and online trading features to its clients.

Online Services

KMEFIC continues to offer the online trading on the markets of GCC, MENA in addition to the U.S. markets. In order to support and enhance our online services, KMEFIC has successfully launched the new online trading platforms which will let investors trade anywhere and everywhere including "Alawsat Trader" for desktops and laptops in 2013. In 2014, KMEFIC introduced a one of kind cross-platform mobile trading application "Hybrid HTML5 App" as a step to maintain its technological edge and securing all possible investors' needs. In 2016, KMEFIC is launched a new native mobile application for iOS and Android operating systems providing the best user experience on mobile devices with a new tablet platform. KMEFIC's technology strategy is oriented towards shifting to a cloud approach to ensure seamless user experience in all communication devices (desktop, mobile, and tablet). Last but not least, KMEFIC is working on developing new investment opportunity into the equity and forex international markets to increase the client diversification plan.

Closing thoughts and outlook

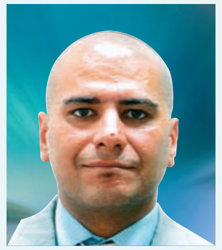
The most important factors for the next year for the regional and global markets are improvements in regional security environment and political situation in the middle east, the level of oil prices, confidence returning to the global markets and the decisions of global central banks with regard to interest rate and supporting the liquidity in the banking system.

We, in KMEFIC, aim to maintain practical investment philosophy and apply an approach targeting the assets of acceptable risks and appropriate gains in order to continue in our efforts to search for the valuable opportunities that realize our clients' objectives. Like 2016, the company will maintain its strategy to liquidate the non-performing long term assets, improve performances of it's subsidiaries, reduce interest burden and focus on the profit growth. In the end, I would like to extend my thanks and gratitude to KMEFIC management and its staff for their permanent commitment that supported the company to realize its investment objectives and purposes, and maintain its position as a leading company in investment and assets management in Kuwait. Finally, I would like to extend my appreciation and kind wishes on behalf of the company to our investors and clients for their confidence in KMEFIC and its vision.

Ahmed Zulficar
Chairman

Board of Directors

Ahmed Zulficar
Chairman



Hesham Zaghlool
Vice Chairman

Rajeev Gogia
Director

Adel Al Humaidhi
Director - CEO

Michael Essex
Director

Basil Al Zeid
Independent Director

Wafa Al Shehabi
Independent Director

Corporate Governance Report 2016

Kuwait & Middle East Investment Company KSCC

Speech of the chairman

Ladies and gentlemen, shareholders of Kuwait & Middle East Financial Investment Company KSCC (KMEFIC).

For myself and on behalf of the Board of Directors I am pleased to produce to the kind shareholder's Corporate Governance report of Kuwait & Middle East Investment Company KSCC for 2016.

Corporate Governance rules to companies are represented, principles, systems and procedures. That realize the best protection and balance between the interests of company's management and its shareholders as well as other interest's parties associated with the Company. The main objective, however, is to apply corporate's governance rules to guarantee that the Company keep pace with the objectives of the shareholders in the manner that reinforces trust of the investors of the Company's efficient performance and ability to face crises. Hence, the rules of Corporate Governance regulate the methodology of adopting all resolutions inside the Company and enhancing the transparency and credibility of such resolutions.

One of the most important objectives of the rules of Corporate Governance is to protect the shareholders and to separate the powers between the executive management that manages Company's business and the power of the Board of Directors that prepares and reviews plans and policies of the Company in a manner that ensures tranquility and enhances trust in dealing with the Company. Further, it enables shareholders and interested parties to effectively control the Company. To keep pace with the positive steps adopted by Capital Markets Authority based on the rules, regulations and regulatory orders to improve business environment, transparency and to protect shareholders. Further, we are keen to enforce all laws, regulations and leading practices that keep pace with our principles and professional bases that lead our business to realize the interests of our dear shareholders, so we are always endeavoring to focus our efforts to apply all laws and decisions in the required profession aspect and on time via an integrated teamwork.

First Rule: Constructing balanced structure of the Board of Directors

Board of Directors structure:

Overview of the formation of Board of Directors

The Board of Directors is responsible for effective management of the Company and it is legally obliged to realize the interest of the Company on the best way. Further, it represents balance that endeavor to attain the objectives of shareholder and to follow up Company's executive management. In this regard, the Board of Directors is endeavoring to realize the strategic objective of the Company via ensuring that the executive management is performing the duties entrusted to them satisfactorily. Whereas the resolutions of the Board of Directors greatly effects the performance of the Company and validity of its financial position, the Company has always been keen to form balanced, qualified Board of Directors of various experiences so that it shall have positive impact on the Company and its performance and it shall reinforce its financial position and market share. Therefore, the Company is keen that the majority of the directors should be non-executive members, elected members and having two independent directors. Further, the Company is keen that the Board of Directors must include members of various long experiences in the field of Company's business and in the accounting and financial fields to add experiences that are required by the Company upon discussing the subject over to the Board of Directors. The Board of Directors has business charter that includes all detailed related to the rules and responsibilities of the board, its meetings, special committees, the responsibilities of the Chairman, Vice Chairman, Chief Executive Officer, and Directors in addition to the secretary and the executive management. Company's Board of Directors consists of 7 members, namely:

Mr. Ahmed Zulfiqar
Chairman

Mr. Ahmed has more that 30 years of practical experience in leading positions in the financial and banking sector. He was employed in the field of banking services at Chase National Bank, Cairo Saudi Bank, Kuwait National Bank and Al-Ahli United Bank. Mr. Ahmed joined Al-Ahli United Bank in 2007 as Deputy Chief Executive Officer for the following Department (Risks, Compliance, Financial, Information Technology and Operation), head of credit Committee, head of risk management Committee and members of the supreme credit Committee and assets and liabilities management Committee. He has obtained bachelor degree of commerce, accounting major from Cairo University in 1976. Mr. Ahmed was a director at KMEFIC Company since 2010 and he has been elected as the chairman of the current board.

Mr. Hesham Zaghlool
Vice Chairman

He has more than 18 years experience in the banking and financial services. He obtained bachelor degree in economy and political sciences from Cairo University in 2001, and he has been employed in several financial banks and institutions in the Gulf States and North Africa. He joined Al-Ahli United Bank in (Kuwait) 2007, and he is currently occupies the post of senior General Manager for banking services for financial companies and institutions at Al-Ahli United Bank (Kuwait). Further, he is a director at Iraqi Commercial Bank (Iraq) and member of the supreme credit committee,

Corporate Governance Report 2016 (continued)

assets and liabilities management committee at Al-Ahli United Bank. Furthermore, he is a member at credit and risk committees at Iraqi Commercial Bank,and member of credit and investment committee at United Bank, (Libya). Furthermore, he was a director at KMEFIC Company since 2014 and he has been elected as Vice Chairman in the current board.

Mr. Adel Fahed Al-Humaidhi

Director and Chief Executive Officer

He has wide experience of more than 28 years in many financial and investment fields as well as initial subscriptions in the local and international market. Mr. Adel joined KMEFIC in 1997 at Asset Management Department. He obtained bachelor degree, In business administration from Concordia University, USA and he is a director at Kuwait Industrial Bank, the chairman of Middle East Financial Brokerage Company and he has been elected as a Director at KMEFIC current board.

Mr. Wafa Haider Al-Shehabi

Director (Non-executive)

Has held, over the past 40 years, various executive and advisory positions with several major organizations in the Middle East. From initial training at the International Finance Corporation in Washington DC to becoming an advisor to the Kuwait Investment Authority and beyond, Mr. Shehabi has leveraged his engineering background and management training into launching or turning around several industrial and commercial Projects around the Middle East. Projects that include the SUMED pipeline, Arab Iron and Steel, Shuaiba Paper Products and a host of other large and medium sized industrial projects, and he has been elected as a director at the current board of KMEFIC.

Mr. Rajeev Gogia

Director (Non-executive)

A business strategy, capital management/ allocation and corporate finance professional with about 20 years of industry and management consulting experience in the Financial Services Sector in the Middle East and India. Joined Ahli United Bank BSC in 2007 as Group Head of Strategic Development. Prior to AUB, worked with National Bank of Dubai, KPMG Consulting (UAE) and Industrial Finance Corporation of India. Holds Chartered Accountancy qualification from the Institute of Chartered Accountants of India.

Board member of Ahli United Bank (Egypt) S.A.E., Al Hilal Life B.S.C. (C) and Al Hilal Takaful B.S.C. (C), and he has been elected as a director at the current board of KMEFIC.

Mr. Basil Abdulwahed Al-Zeid

Independent Director

Mr. Basil Zaid has more than 29 years of administrative experience in addition to his experience in companies finance, treasury, international investment, real estates, accounts, purchases, development, IT, financial planning and accounting companies. He obtained master degree in business administration and international relations from Webster University, USA. He joined United Arab Shipping Company since 2001 and he is currently the director of the Financial Department as well as the Chairman of board of trustees of the company. Further, he is the Director in several companies and he has been elected as a director at the current board of KMEFIC.

Mr. Michael Gerald Essex

Independent Director

Mr. Michael has more than 40 years of experience in the banking, investment and financial markets. He is experienced in the communication developments, customer relations management, financing infrastructure, capital investment, projects finance, banking services of companies, consulting services in the emerging markets. He is a Director in many Boards of Directors of banks and funds in the Gulf, India, Egypt and London. He is currently a Director and Head of Auditing and Compliance committee as well as rewards and nominations committee at Al-Ahli United Bank since 2012. He has master degree in the general administration from Carlton University, Canada, 1975. Further, he has obtained a certificate in the executive development program from Harvard Business College, Boston, USA in 1997 and he has been elected as Director at the current board of KMEFIC.

Hereunder his brief classification, qualification and experiences of the directors:

Name	Director's classification (executive/non-executive/ independent), secretary	Qualifications and practical experience	Election date/ appointment as secretary
Ahmed Mohamed Zufiqar	Chairman/Non-Executive	Bachelor degree in commerce, accounting major	4 August 2016
Hesham Zaghlool	Vice Chairman/Non-Executive	Bachelor degree in economy	4 August 2016
Adel Fahed Al-Humaidhi	Director & Chief Executive Officer	Bachelor degree in business administration	4 August 2016
Michael Gerald Essex	Director/ Non-Executive	Master degree in public administration	4 August 2016
Rajeev Gogia	Director/ Non-Executive	Chartered accountant certified by chartered accountant of institute of India	4 August 2016
Basil Abdulwahed Al-Zeid	Director / Independent	Master degree in business administration international relations	4 august 2016
Wafa Haider Al-Shehabi	Director / Independent	Master degree in mechanical engineering	4 August 2016
Christy Kulathooran	Secretary of the Board	Master degree in financial administration	26 May 2013

Meetings of Company's Board of Directors

In accordance with Company's Articles of Association the meetings of the Board of Directors must not be less than 6 meetings annually to be held as per an invitation from the chairman and it must not be less than one meeting on quarterly basis or pursuant to written application from two directors. A notice of the meeting shall be served to all directors accompanied with the agenda atleast 3 working days before the meeting accompanied with necessary documents that enable them to peruse all issues that will be discussed and decided. In 2016 Company's board convened 6 meetings. Hereunder is a table indicating attendance of the directors in the meetings of the board as follows:

Director's name	Meeting no.1 held on 10/2/2016	Meeting no.2 held on 23/5/2016	Meeting no.3 held on 9/8/2016	Meeting no.4 held on 28/9/2016	Meeting no.5 held on 22/11/2016	Meeting no.6 held on 14/12/2016	Number of Meetings
Ahmed Mohamed Zulfiqar	✓	✓	✓	✓	✓	✓	6
Hesham Zaghalool	✓	✓	✓	✓	✓	✓	6
Adel Fahed Al-Humaidhi		Elected on 4/8/2016	✓	✓	✓	✓	4
Rajeev Gogia	✓	✓	✓	✓	✓	X	5
Basil Abdulwahed Al-Zeid		Elected on 4/8/2016	✓	✓	✓	✓	4
Wafa Haider Al-Shehabi		Elected on 4/8/2016	✓	✓	✓	✓	4
Michael Essex		Elected on 4/8/2016	✓	✓	✓	X	3
Hamed Al-Sanea	✓	X	Replaced				1
Jehad Al-Humaidhi	✓	✓	Replaced				2
Hershel Post	✓	Resigned	Replaced				1
Prakash Mohan	✓	✓	Replaced				2

Meetings of the board in 2016

Secretary of the Board of Directors

The Board of Directors appointed Mr. Christy Kulathooran as secretary of the Board of Directors.

Mr. Christy has joined KMEFIC in 1993 and he is currently the General Manager of the financial and supporting services Department of the group as well as the human resources Department. Mr. Christy has more than 30 years experience in the field of accounting and financial administration. He was employed by Burgan Bank in (Kuwait), Federal Bank in (India). He obtained master degree in financial administration from Mumbai University, India and he is currently a member of many committees at KMEFIC.

He has been appointed a secretary of the Board of Directors during the meeting of the board dated 26 May 2013.

Summary of how to apply registration and coordination requirements and how to maintain the minutes of Company's Board of Directors

The secretary shall completely and continuously attested by the directors to guarantee that they have obtained any information that is required in accordance with the resolution of board or in consultation with the Chairman. Further he shall assist the chairman in all issues related to preparing the agenda of the board's meeting and he shall issue invitations to the directors. Furthermore he shall record all resolutions and discussions of the members of the Board of Directors and shall register the results of voting that may be conducted in the meetings of the Board of Directors. In addition he shall keep and maintain the related documents and the special register of the meetings of the board.

Second Rule: Proper identification of duties and responsibilities

Duties and Responsibilities of the Board of Directors

The Board of Directors has adopted the regulations of the board that includes the duties and responsibilities of the Board of Directors, including but not limited to

- Approval of the strategic objectives and important plans and policies of the company
- Approving annual estimated balance sheets and approval of the interim and annual financial statements
- Supervising main capitalist expenses of the company, possessing and disposing assets
- To ensure to what extent the company is observing the policies and procedures that guarantee respect of the applicable by laws and regulations by the company
- To guarantee accuracy and validity of the statements and information that must be disclosed in accordance with the applicable disclosure and transparency policies and regulations

Further the board has prepared and approved the job description that guarantees clear determination of the duties and responsibilities of each director.

Further the board has approved authorities' guideline indicating the authorities of the Board of Directors, Executive Management and Committees.

Achievement of the Board of Director during the year

Achievements that attain aspiration of our customers and shareholders

Based on the responsibilities of the board represented

Corporate Governance Report 2016 (continued)

in achieving the best financial and operational result, satisfactory completion of company's strategic plan. The board has achieved in his current session many achievements, including but not limited to:

1- Laying out the main and financial objectives of the company as well as strategy, plan and policies
2- Supervising the execution of the annual strategies, business plan and budget. Further to ascertain the reasons of shortcomings, if any. This enable the Board of Directors to reduce the costs already detailed in the speech of the Chairman.
3- Follow up with the executive management to guarantee effectiveness of the internal control systems that protect companies' assets and guarantee validity and safety of the financial statements, company records and compliance with the related rules, systems and instructions
4- The Board of Directors has adopted several measures to guarantee sound compliance with corporate governance rules in accordance with the executive regulations of the Capital Market Authority
5- To layout main performance indicators to the directors and members of the executive management

Committees of the Board of Directors

Effective committees that assist the Board of Directors and the protect right of the interested parties

- The Board of Directors formed committees affiliated to the board, taking into consideration the instructions and rules of governance issued by Capital Market Authority upon formation of the Board Committees. The committees of the board include the executive committee, risk committee, auditing and compliance committee, nominations and reward committee, Hereunder statement of such committees

1- Committee Name: Auditing and Compliance committees

The committee was established in 2011

Committee	Date of Current Formation	Term of Committee	Number of members
Auditing and Compliance Committee	22/8/2016	Indefinite	3

	Name	Role	Classification
Members of the committee	Mr. Michael Essex	Chairman	Non Executive
	Mr. Rajeev Gogia	Member	Non Executive
	Mr. Basil Al Zeid	Member	Independent

The committee undertakes several duties including:

- Periodical review of financial statement before being presented to the Board of Directors and giving opinion and recommendations concerning the same to the Board of Directors in order to guarantee validity and transparency of the financial statements and reports
- To study the accounting subjects and understand its impact on the financial statements
- To evaluate the efficiency and adequacy of the internal control systems applicable in the company and to prepare a report that includes the opinion and recommendations of the committee in this regard
- To review the results of internal auditing report and that of the supervisory authorities
- To follow up external auditing works

Meetings of the committee

In 2016 Auditing and Compliance Committee convened four meetings as follows:

Meeting no. 1 dated 16/2/2016	Meeting no. 2 dated 23/5/2016	Meeting no. 3 dated 8/9/2016	Meeting no. 4 dated 23/11/2016

Attendance during the meetings was as follows:

Attendance of the meetings

First Meeting			Second Meeting		
Chairman	Director	Director	Chairman	Director	Director
✓	✓	✓	Resigned	✓	✓
Third Meeting			Forth Meeting		
Chairman	Director	Director	Chairman	Director	Director
✓	✓	✓	✓	✓	✓

Achievements of the committee:

The committee achieved several achievements, including:

1- Preparing many reports and internal control procedures to supervise companies business
2- To restrict the issues or factors that may represent any risks to the company
3- To develop mechanism to guarantee quick rectification of any remarks or subjects resulting from internal and external auditing reports

Remark: The committee has been reconstituted on 22/8/2016 as the Board of Directors has been re-appointed and reconstituted once again on 4 and 9 August 2016.

2- Committee Name: Nominations and Rewards Committee

Committee	Date of Formation	Term of Committee	Number of members
Nominations and rewards committee	22/8/2016	Indefinite	3

	Name	Role	Classification
Members of the committee	Mr. Michael Essex	Chairman	Non Executive
	Mr. Basil Al Zeid	Member	Independent
	Mr. Hisham Zaghlool	Member	Vice Chairman

The committee undertakes several duties including:

- Recommendation of accepting nominations and re-nominations of the directors and members of the executive management
- Laying out clear policy of the remuneration of the directors and members of the executive management.
- Determining the required needs of appropriate skills for directorship and reviewing such needs on annual basis.

Meetings of the committee

In 2016 Nominations and Rewards committee convened one meetings as follows:

Meeting no. 1 dated 14/12/2016			

Attendance during the meetings was as follows:

Attendance of the meeting

First Meeting			Second Meeting		
Chairman	Director	Director	Chairman	Director	Director
X	✓	✓	–	–	–
Third Meeting			Forth Meeting		
Chairman	Director	Director	Chairman	Director	Director
–	–	–	–	–	–

Achievements of the committee:

The committee achieved several achievements, including:

- Approval of the indemnities and increasing salaries of the employee, bonus plans, hierarchy policy, and employee related regulations. The committee is about to upgrade main performance indicators of the employees and directors

3- Committee Name: Executive Committee

The committee was established in 1994

Committee	Date of Formation	Term of Committee	Number of members
Executive Committee	22/8/2016	Indefinite	3

	Name	Role	Classification
Members of the committee	Mr. Ahmed Zulfiqar	Chairman	Non Executive
	Mr.Adel Al Humaidhi	Member	CEO
	Mr. Hisham Zaghlool	Member	Vice Chairman

The committee undertakes several duties including:

- Preparing and approving the policies and resolution related to business procedures in the company and submitted by different executive departments.
- Submitting proposals concerning nomination of different service providers.
- Discussing investment offers and approving or rejecting the same

Meetings of the committee

In 2016 Nominations and Rewards committee convened one meeting as follows:

Meeting no. 1 dated 22/11/2016			

Attendance during the meetings was as follows:

Attendance of the meeting

First Meeting			Second Meeting		
Chairman	Director	Director	Chairman	Director	Director
✓	✓	✓	–	–	–
Third Meeting			Forth Meeting		
Chairman	Director	Director	Chairman	Director	Director
–	–	–	–	–	–

Achievements of the committee:

The committee achieved several achievements, including:

1- Discussing budget plan and company's business as well as recommending appointment of experts and consultant to conduct studies
2- The committee submitted recommendation to the Board of Directors concerning strategies and responsibilities of the company

4- Committee Name: Risk Management Committee

The committee was established in 2001

Committee	Date of Formation	Term of Committee	Number of members
Risk Management Committee	22/8/2016	Indefinite	3

	Name	Role	Classification
Members of the committee	Mr.Wafaa Al Shehabi	Chairman	Independent
	Mr. Hisham Zaghlool	Member	Non Executive
	Mr. Rajeev Gogia	Member	Non Executive

The committee undertakes several duties including:

- Preparing and reviewing the strategies and policies of risk management and removing risks before being approved by the Board of Directors. Further to insure execution of such strategies and policies and that it suits the nature and size of company's activities
- To guarantee availability of adequate resources and systems to manage risks
- To insure that risk management staff has full understanding of risks surrounding the company and to increase the awareness of the staff of risk culture and their awareness of the same

Meetings of the committee

In 2016 the committee convened two meetings as follows:

Meeting no. 1 dated 23/11/2016	Meeting no. 2 dated 4/12/2016		

Corporate Governance Report 2016 (continued)

Attendance during the meeting was as follows:

Attendance of the meeting

First Meeting			Second Meeting		
Chairman	Director	Director	Chairman	Director	Director
✓	✓	✓	✓	✓	✓
Third Meeting			**Forth Meeting**		
Chairman	Director	Director	Chairman	Director	Director
–	–	–	–	–	–

Achievements of the committee:

The committee achieved several achievements, including:

- Preparing and following up the strategies and policies of risk management, evaluating the systems and mechanism to determine and measure different types of risks
- Further the committee assisted the board of directors to determine and evaluate the main risks of the company and to guarantee that the company efficiently and effectively managing the risks

Remark: Two meeting was convened during the year. Compliance and conformity with governance provisions were observed on 30/6/2016, i.e. the fixed date by Capital Markets Authority.

- Summary of applying requirements that enable directors to accurately obtain information and statements on time

The Board of Directors approved guidelines that guarantee providing the directors with accurate information on time in accordance with related laws and legislations. The guideline determines the mechanism of applying for information and presenting the same to the board as well as the procedures and undertakings by the directors to maintain the confidentiality of the information disclosed to them in their capacity.

Executive Management

"One of the most essential elements that characterize us and guarantee our leadership in the market is the expertise of the executive management members"

- The company has professional and qualified team work from among the members of the executive management

Mr. Adel Humaidhi

Chief Executive Officer

He has wide experience of more than 28 years in many financial and investment fields as well as initial subscriptions in the local and international market. Mr. Adel joined KMEFIC in 1997 at Asset Management Department. He obtained Bachelor Degree in Business Administration from Concordia University, USA and he is a Director at Kuwait Industrial Bank representing Ahli United Bank, the Chairman of Middle East Financial Brokerage Company and he has been elected as a Director at KMEFIC current board.

Ms. Buthaina Al-Ahmad

Executive Manager – Customer Service

Ms. Buthaina Al-Ahmad joined KMEFIC in 1995, and she holds currently the position of the Executive Manager of Customer Service. Buthaina has wide experience over 24 years in investment, assets management and customer services. She worked in Kuwait Petroleum Corporation before KMEFIC. Ms. Buthaina obtained the Bachelor degree in Accounting from Kuwait University and MBA degree in business administration from Maastricht University for Business Administration. Further, she holds several professional certificates in accounting, conformity, compliance and auditing. She is working currently as the Chairman of First Middle East Holding Company in addition to her membership in several professional entities.

Mr. Mohamed Al-Saleh

General Manager – Treasury Group

Mr. Mohamed Al-Saleh joined KMEFIC in 2004, and he is currently the General Manager of Treasury Group. Mr. Mohamed Al-Saleh has wide experience over twenty years in treasury and stock exchanges field. Before his work with KMEFIC, he worked at Ahlia Insurance Company, Bank of Kuwait & Middle East, and Al-Ahli Bank of Kuwait. He obtained the Bachelor degree in Accounting from Kuwait University. Also, he was a member in the Board of Directors of the Kuwaiti Society for Financial Market for three consecutive sessions. Further, he is member in many professional entities and members in the Board of Directors of Gulf Real-Estate Projects Company.

Mr. Tamer El-Essawy

General Manager, compliance, and money laundering division

Mr. Tamer El-Essawy joint KMEFIC on January 2008 and he is the General Manager at present of Compliance, and Money Laundering Department. Further he is the head of complaints unit, FATCA and Governance In-charge. Mr. El-Essawy has extensive practical experience of more than 22 years in the banking services operations, accounting, investment, customer service and international safe trustee services. Mr. Tamer was previously employed by the Gulf Bank, (Kuwait), Citi Bank, (Egypt), American Express Bank, (Egypt) and he was the Managing Director of Egypt and Middle East Financial Brokerage Company, (Egypt). Further he was a Director at many Financial, Investment and Mutual Funds. He obtained Bachelor Degree in Commerce from Tanta University, (Egypt) and he has been awarded several certificates in Business Administration and operations. He is a member with many societies, financial institutions and authority and he is currently a Director at International Projects Management Company, (Egypt) and member of liquidation committee for several mutual funds. Further he is the Chairman and member in several internal administrative committees in the company.

Mr. Ahmed Abdulwahab Al Fahad

Senior Manager, Assets Management Group

Mr. Ahmed joined Kuwait and Middle East Financial Investment Company (KMEFIC) in 2012. Before being employed by KMEFIC Mr. Ahmed was employed by KAMCO Investment Company. He is currently managing Asset Department and he has 20 years experience in the Investment field as well as mutual funds management. He obtained Bachelor Degree, Accounting from Kuwait University.

Mr. Christy Kulathooran

Financial and Administrative Affairs, General Manager

Mr. Christy has joined KMEFIC in 1993 and he is currently the General Manager of the Financial and Supporting Services Department of the group as well as the Human Resources Department and the Secretary of the Board of Directors of KMEFIC. Mr. Christy has more than 30 years experience in the field of accounting and financial administration. He was employed by Burgan Bank in Kuwait Federal Bank in India. He obtained Master degree in Financial Administration from Mumbai University, India and he is currently a member of many committees at KMEFIC.

Mr. Raj S Dhanasekharan

Risk Management Manager

He manages the security of information technology within the company and he has obtained Master Degree in Business Administration. Further he is certified associate with Indian Banking Institute. Further he has 30 years experience in the banking field within GCC states and he has been employed in several banks, such as Bahrain and Kuwait Bank, Qatar National Bank, Doha Bank, The Commercial Bank of Kuwait, Al Rajhi Bank and Warba Bank.

The company has job description that clearly determine the duties and responsibilities of each post. Further the company has approved annual of powers and authorization of all sectors within the company.

The duties of the executive management include, but not limited:

- Executing all policies, regulations and bylaws of the company approved by the Board of Directors
- Implementing the strategies and annual plan approved by the Board of Directors
- Preparing periodical reports (financial and non-financial) on the progress of company's business within the light of the strategic plan and objectives of the company and presenting such reports to the Board of Directors
- Managing Daily business and running company's activities.
- Active participation in constructing and developing ethical culture within the company.
- Laying out internal control system and the risk management plan. Further, verifying the efficiency and effectiveness of such system and observing risk management policy approve by the Board of Directors

Third Rule: Selecting Efficient Persons for Directorship of the Board of Directors and Executive Management

Nominations and Rewards committee

"The mechanism of nomination guarantees continuous attraction and selection of the best qualified personnel to join directorship and executive management. Further, the mechanism of granting rewards have been fixed to achieve the strategy of the company".

The Board of Directors has formed nominations and rewards committee in accordance with the governance rules. Further, article 4-1 of corporate governance manual provides for independent member in the formation of the committee. In addition, the Board of Directors approved the charter of committees business that includes the duties and responsibilities of the committee. The committee is concerned with the following duties:

- To recommend acceptance of nomination and re-nomination of the directors and members of the executive management
- Laying out clear policy of the remuneration of the directors and members of the executive management
- Determining the required needs of appropriate skills for directorship and reviewing such needs on annual basis
- Recruiting the applicants for executive posts as required and studying and reviewing such applications
- Determining different categories of bonus to be granted to the employees, such as fixed bonus and that related to performance, bonus in the form of shares and end of indemnity benefit
- Preparing job description of the executive members, non-executive members and independent members
- To propose the nomination and re-nomination of members for general assembly elections and to ensure that the independent capacity is not removed from independent members
- To determine the mechanism of evaluating the performance of the board as a whole and the performance of each director and member of the executive management
- To determine the indicators of measuring the performance of the board and reviewing such indicators on annual basis
- To review and propose training programs and workshops of the directors
- To review the pay roll and occupational grades on periodical basis
- To supervise nomination procedures of the members during general assembly
- To ensure that bonus is granted in accordance with approved bonus policy
- To prepare detailed annual report of all bonus granted to the directors and members of the executive management, either it is amounts, benefits or privileges whatsoever its nature and title might be, provided that such report must be presented to company's general assembly for approval

Corporate Governance Report 2016 (continued)

Report of the bonus granted to directors and members of the Executive Management:
In compliance with the highest with the highest criteria of transparency and in accordance with the provisions of leading practices and companies' governance rules, the company is committed to prepare detailed report on all bonus granted to the directors and members of the executive management. Hereunder are the details of the bonus granted to the directors and members of the executive management:

Detailed statement of directors bonus

SL	Member	Post in board	Allowances	Bonus	Other	Total
1	Ahmad Zulfiqar	Chairman	Nil	Nil	Nil	Nil
2	Hesham Zaglool	Vice chairman	Nil	Nil	Nil	Nil
3	Adel Al Humaidhi	Director & CEO	Nil	Nil	Nil	Nil
4	Raheev Gogia	Director	Nil	Nil	Nil	Nil
5	Michael Essex	Director	Nil	Nil	Nil	Nil
6	Wafa Al Shehabi	Director	Nil	Nil	Nil	Nil
7	Basil Al Zeid	Director	Nil	Nil	Nil	Nil
8	Christy Kolathooran	Secretary	Nil	Nil	Nil	Nil
Total	8		Nil	Nil	Nil	Nil

Fourth Rule: Guarantee of the integrity of financial reports

Financial reports and External Auditor's report

The Board of Directors and the Executive Management shall provide written undertaken of the validity and integrity of the financial reports already prepared.

- The Board of Directors constituted auditing and compliance committee in accordance with the provisions of article 5-6 of corporate governance manual. The formation, objectives, functions and responsibilities of the committee have been herein above mentioned

Financial Reports and external auditor

The company publishes set of financial reports on periodical basis that includes:

- Interim financial statements
- Profit statements
- Annual reports

With regard to the external auditor, auditing and compliance committee endeavors to:

- Recommend the Board of Directors to appoint and reappoint the external auditor or propose changing the same and it shall propose his fees and review his letter of appointment, provided that he must be from among the auditors entered in the special register with Capital Markets Authority, and provided also he must fulfill all conditions set forth in the requirements of Capital Markets Authority resolution concerning entry of auditors
- To ensure the independents of the external auditor on periodical basis and before appointing or reappointing him and to ensure that the auditor shall not undertake any additional duties that do not involve the duties of the external auditor before being entrusted with the same and that may affect his independence in accordance with the requirements of auditing profession
- Please note that in case of any contradiction between the recommendations of auditing committee and the resolutions of the Board of Directors, detailed statement shall be included indicating the recommendations and the reason (s) of the resolution of the Board of Directors and non compliance with the same

Fifth Rule: Laying out proper system for Risk Management and Internal Control

Internal Control and Risk Management System

Internal Control and Risk Management System:
The company has created Risk Management System to protect the company from potential risks of all types and to determine the direction and type of acceptable risks via laying out set of internal control systems that are adequate and appropriate for company's business and the nature of its activities.

The Managers enjoy independence as they directly reporting to the Board of Directors.

- The Board of Directors has created risk committee in accordance with governance rules provided for under article 4-6 of corporate governance manual. In this respect the duties and formation of the committee as well as the names of the members and achievements of the committee have been herein above mentioned

Brief summary indicating internal control systems:

- The company layout effective systems, procedures and tools to manage risks and internal control of all company's business
- The company is continuously upgrading periodical reports system of all departments of the company as the same is considered as one of the most important effective tools is the process of following up performance, control and auditing as well as Risk Management via applying double control principle to make sure of the following:
  - Proper identification of duties and responsibilities and complete separation of duties to avoid conflict of interests
  - The company has internal control and auditing department. In this regard the Board of Director is keen to activate its role and supporting the department to achieve the highest level of internal control
  - The company has Compliance and Control Department that endeavors to ensure compliance with all laws and regulations. The department is considered as one of the most important internal control tools and it is working parallel with auditing department and risk department to ensure applying of double examination and control procedures. In this regard the Board of Directors is interested to activate the role of the department on continuous basis

Internal Auditing

The company has created Internal Auditing Department that enjoys complete technical independence via being directly reporting to auditing and compliance committee and the Board of Directors. The department performs several duties, including:

- Controlling and reviewing the performance of different department of the company to ensure sound applicability of the company's internal systems, regulations and policies
- To ensure the efficiency of internal control system of all department of the company and to prepare relevant reports and present the same to auditing and compliance committee as well as the Board of Directors
- To review the remarks of external auditors concerning internal control system and to ensure compliance with the same
- To ensure compliance of the company with the related policies, system and instructions

Sixth Rule: Reinforcing professional conduct and moral values

The rules of professional conduct and moral values

The company, represented by the Board of Directors and Executive Management as well as all staff believe that professional and ethical conduct is one of the most elements of company's success to realize its objectives. Based on this belief, the Board of Directors has adopted a policy that is concerned with determining the criteria of professional and moral conduct in the company, including criteria of professional and moral conduct as well as the responsibilities of the company, board of directors, executive management and staff. Further the policy provides that the responsibility of reporting any incorrect issue that may be observed or unsafe action is the responsibility of all without exemption. Further the policy discussed other essential aspect, such as the relationship with commercial partner, the validity of financial statement, information security, health safety and environment. Further all members of the Board of Directors and executive management as well as staff must observe the same in all their duties regardless place and circumstances of job centre.

Summary of policies and approaches to limits of cases of conflict of interest

The Board of Directors of the company has adopted a policy related to conflict of interest. This policy design to guarantee the application of appropriate measures to find out essential cases of conflict of interests and to effectively tackle the same. Further to ensure that the Board of Directors dealt with cases of conflict of interests, whether it is current, potential or expected. Further all resolutions are adopted in the manner that guarantee achievement of company's interests. This policy is considered as integral part of company's full commitment of integrity and justice upon dealing with the concerned party. The policy describes the basis of dealing, and tackling cases of conflict of interests as well as the concept of conflict of interests, the parties that have interests conflicting with that of the company, the role of the board of directors, executive management, compliance an internal auditing department and company's general assembly with respect to conflict of interests. Further the policy explored the procedures of tackling cases of conflict of interests and disclosure mechanism.

Seventh Rule: Disclosure and transparency accurately and on time

Disclosure and Transparency

Summary of applying mechanism of presentation, accurate disclosure and transparency that determines aspects, field and features of disclosure.

The company is characterize by openness, credibility and cooperation. To realize the solid principles of the company and the best governance practices and to observe all legal requirements, the Board of Directors has approved a policy related to disclosure and transparency that includes definition of some important legal terms. Further the policy has explained general policies of disclosure and the rules and procedure of disclosure, as well as mechanism of disclosure. Further the policy has explained matrix of disclosures of the company. Company's disclosure are published in its website. The objective of this policy is to layout general guidelines of disclosure department within the company to perform operations effectively and efficiently. In this regard the company has prepared special document indicating all periodical reports and records supervisory entities.

Overview of applying the requirements of Directors and Members of Executive Management disclosure register.

- The company prepared special register for the disclosures of the board directors, members of the executive management and the insiders
- The company makes sure that the rules of disclosure of interest, disclosure of substantial information and the disclosure of the insiders are applied

Corporate Governance Report 2016 (continued)

Summary of applying the requirement of formation of the investors affairs organization unit :

- The company has created investor relations organization unit and as appointed one competent employee who have wide experience in dealing with customers and investors.
- Investor relations In-charge is responsible for managing contacts with shareholders and replying to their inquiries
- Further he is fully aware of all improvements and updates related to the company and accurate time

Overview of developing the infrastructure of information technology and depending on the same in the disclosure operations:

- The company uses information technology to facilitate disclosure procedures
- The company has developed its website to keep base with governance and disclosure rules. In this regard the company publishes all disclosures on the website once it is publish to enable all interests party to peruse the same.
- Further the company relies upon the electronic system to determine the percentage of realizing and changing interests

Eighth Rule: Respect of Shareholder rights

Protecting shareholder rights

Summary of applying the requirements of determining and protecting general rights of shareholders to guarantee justice, and equality among all shareholders.

The company is responsible towards the shareholder. In this regard the company adopts the highest criteria of corporate governance and the company believes that sound application of corporate governance reinforces value of its shareholders and provides appropriate instructions for the Board of Directors, related committees and executive management to perform their duties to the best interests of the company and shareholders. The company endeavors to realize the highest level of transparency, accountancy and effective management via adopting and following up execution of strategies, objectives and policies that design to commitment to its regulatory and moral responsibilities.

It is worth mentioning that we activated and reinforced channels of contact with investors and finance analyzers as the share of the company are traded in Kuwait Stock Exchange. Further the company observes transparency and provides financial information about the company via different channels of contact in accordance with the best professional practices of disclosure and transparency. In addition, the company is keen on opening contacts with local and foreign investor as well as financial analyzers to answer their inquiries, if any. Further the company takes part in the investor conferences to reinforce contact with all categories of shareholder and financial community. In addition, the website that is recently upgraded provides set of information concerning the company, financial statements and reports related to company's performance. In addition, the company approved policy for protecting shareholder's rights.

Overview of creating special register to be maintain with offset agency within the requirements of continuous follow-up of shareholder's details:

- Special register concerning shares and shareholders is maintained with Kuwait Clearing Company in accordance with governance rules.
- Investor relations In-charge keeps and maintain updated copy of shareholder's register
- The register is available to all shareholders for perusal on time and in accordance with the law without any charges

Overview of Encouraging shareholders to take part and vote in the meetings of company's general assemblies:

- The company, and Board of Directors represented by investor relation unit incite and encourage shareholders to effectively participate and attend the meetings of company's general assemblies.
- The company invites the general assembly of shareholder for convention in accordance with laws and regulations. Further it enables the shareholders who have at least 10% of company's capital to call for convention of the general assembly pursuant to the provision of company's article of associations
- Sending invitations to shareholder to attend the meeting including the agenda, place and time of the meeting in accordance with the law
- To reiterate that the shareholder has the right to appoint substitute to attend general assembly meeting as per special power of attorney or authorization to be prepared by the company.
- Before convention of the general assembly, the company provides shareholders with all information and statements related to the agenda, particularly the reports of the Board of Directors, auditors report and financial statements

Ninth Rule: Being aware of the role of interested parties

Being aware of the role of interested parties

Overview of the systems and policies that guarantee protection and acknowledgement of the rights of interested parties

The company is endeavoring to respect and protect the rights of the interested parties in all its internal and external dealings and transactions as the contributions of the interested parties constitute very essential source for constructing competitive ability of the company and reinforcing the levels of its profit. To avoid any contradiction with the transactions of the interested parties, either it is contracts or dealings with the company and the interest of the shareholders, the company has taken the following into consideration:

- Neither interested party may have any privilege from his contracts and transactions that fall within the originally business of the company
- The company lays out internal policies and regulations that guarantee clear mechanism of awarding different types of contract and transactions

In this regard the company has approved set of policies, including but not limited to:

- Interested parties protection right policy
- Lack of conflict of interests policy
- Reporting policy
- Transactions with related parties policy

Overview of how to encourage interested parties to take part in following up different activities of the company.

- The company gives the opportunity to the interested parties to obtain the information and statements related to their business via investor relations unit, customer service department, complaints unit, company's website, continues disclosures and via developing performance methods and interested parties related services
- The company has created appropriate policies to enable interested parties to report inappropriate practices to the Board of Directors that they may suffer from the company. Further it has provided appropriate protection to the parties who may submit any report

Tenth Rule: Reinforcing and improving performance

Improving Performance

Summary on applying the requirements that enable each director and member of the executive management to attend training programs and courses on continuous basis:

- The company has developed and prepared a plan to convene training courses and programs for the directors and members of the executive management so that they shall have full understanding of company's business, activities, operations and their obligations
- Such programs include financial and operational aspect of company's business, their legal and supervisory obligations, duties and responsibilities, company's strategies, role of the committees of the Board of Directors, their perusal and training on all laws, regulations and updates related to company's business and supervisory authorities

Brief Summary on how to evaluate the performance of the Board of Directors and that of each director and member of the executive management.

- The company has laid out policies and rules to measure and assess the performance of each director and member of the executive management on periodical basis
- The company has laid out set of performance indicators related to the extent of realizing company's strategic objectives, quality of risk management and adequacy of maintaining internal control systems
- Performance indicators determine the points of strength and weakness as well as rectification of the same in conformity to company's interests

Brief Summary of the efforts of the board of directors to create as a values of the company (value creation) among company's staff via realizing the strategic objectives and improving performance indicators:

- The board of directors endeavors to create values within the company on the short, medium and long terms via laying out procedures and mechanism to realize the strategic objectives of the company and to improve performance indicators
- To develop Integrated Reporting System in order to create values within the company
- To make the staff aware of the methodology of company's business, improvements and updates

Eleventh Rule: Concentration on the importance of social liability

Social Liability:

Brief Summary of Company's policy to create balance between the objectives of the company and that of the community:

- The company has created social liability management policy that enable the company to realize its objectives. This policy is integrated with the objectives of the community, i.e. moral acts and contribution in achieving sustainable developments of the community in general and for company's staff in particular. This has been achieved via improving living, social and economic circumstances of the staff and their families in addition to the community as a whole, contributing in the reduction of levels of unemployment, ideal utilization of available resources, providing job opportunities, supporting and encouraging national labor force

Brief Summary of the programs and mechanism adopted to highlight company's efforts exerted in the social work:

- The company has prepared policies that guarantee disclosure of the objectives of social liability adopted by the company in favor of its staff
- Awareness programs are arranged for company's staff to guarantee that they are aware of social liability objectives carried out by the company on continuous basis in order to promote company's level
- The company involves the staff in the performance of social liability programs and contribution in different social activities carried out by the company

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Auditors' Report

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

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Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the 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 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statement, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We identified the following key audit matters:

a- Impairment of intangible asset

Intangible asset represent brokerage license acquired from Kuwait Stock Exchange. This license has indefinite useful life. As required by the applicable accounting standards, management conducts annual impairment tests to assess the recoverability of the carrying value of cash generating unit to which brokerage license relate. The assessment of the recoverable amount of intangible asset under the value-in-use basis is complex and requires considerable judgment on the part of management. As disclosed in note 9, there are number of key sensitive judgments made in determining the inputs into model which include revenue growth, market share, trading volumes, terminal growth rate, and discount rate applied to the projected future cash flows, etc. Therefore, we identified impairment testing of intangible asset as key audit matter.

We tested the key assumptions made by management that includes the cash flow projections and the discount rate. We also performed critical evaluation of the model used by the management to calculate the recoverable amount of the brokerage license; validated the assumptions used in determining the discount rate and terminal growth rate; analysed the future projected cash flows used in models to determine whether they are reasonable and supportable given the current macroeconomic climate and expected future performance of the cash generating unit; subjecting the key assumptions to sensitivity analyses; comparing the projected cash flows, including the assumptions relating to revenue growth rates and operating margins, against historical performance to test the accuracy of management's projections. We also involved our valuation specialists in these audit procedures.

We also assessed the adequacy of the group's disclosures included in note 9 of the consolidated financial statements about those assumptions to which the outcome of the impairment test is more sensitive. The group's policy on assessing impairment of these items and the assumptions used in estimating the recoverable amount is given in note 2.4 and note 9.

b- Impairment of investments available for sale

Investment available for sale categorised in level 1, the fair value is determined by reference to market price, for level 2 investments, fair values are determined based on latest Net Assets Value (NAV) provided by the respective fund managers and for level 3 investments, fair value is determined by reference to valuation technique based on unobservable inputs. Judgement is exercised in determining whether the investments available for sale are impaired based on the significance or length of their deterioration in value. Due to significance of investment available for sale and related estimation uncertainty and judgements, this is considered a key audit matter. The group's policies on valuation and impairment of investments available for sale are given in note 2.4.

Auditors' Report (continued)

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

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Auditors' Report (continued)

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

Key Audit Matters (continued)

b- Impairment of investments available for sale (continued)

As part of our audit procedures, we have tested the level 1 fair valuations by comparing the fair values applied by the group with publicly available market data. For the level 2 investments, we have agreed the fair values to the NAV statements and confirmations received from the respective fund managers. For the level 3 investments, we tested the appropriateness of the models and technique used by the group and the reliability of the data that was used as input to these models. We compared the models used for the valuations with the prior years and determined that the valuations model are consistently applied by the group. Furthermore, we also assessed the judgement exercised in determining whether the investment available for sale are impaired based on the significance or length of their deterioration in value. The related disclosures are presented in note 5 and 25 of the consolidated financial statements.

Other information included in the group's 2016 Annual Report

Management is responsible for the other information. Other information consists of the information included in the group's 2016 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the 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. 1 of 2016, and its executive regulations, 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. 1 of 2016, and its executive regulations, or of the company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2016 that might have had a material effect on the business of the company 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 2016, that might have had a material effect on the business of the company 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

8 February 2017
Kuwait

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 KD	2015 KD
Assets			
Cash and cash equivalents	3	3,009,465	2,890,052
Term deposits	4	55,825	55,825
Investments	5	8,117,577	8,947,377
Loans and advances	6	1,010,406	4,085,275
Investment in an associate	7	-	10,458,481
Other assets	8	1,892,157	1,421,136
Intangible asset	9	8,600,000	10,150,000
Equipment	10	623,688	718,237
TOTAL ASSETS		23,309,118	38,726,383
LIABILITIES AND EQUITY			
LIABILITIES			
Loans from bank	11	3,223,840	13,752,924
Accounts payable and other liabilities	12	3,195,657	3,561,919
TOTAL LIABILITIES		6,419,497	17,314,843
EQUITY			
Share capital	13	26,381,499	26,381,499
Accumulated losses		(12,734,184)	(7,542,437)
Other reserves	14	2,828,134	1,976,538
Treasury shares	15	(1,174,880)	(1,174,880)
Equity attributable to shareholders of the company		15,300,569	19,640,720
Non-controlling interest	16	1,589,052	1,770,820
TOTAL EQUITY		16,889,621	21,411,540
TOTAL LIABILITIES AND EQUITY		23,309,118	38,726,383

Ahmed Zulficar
Chairman

Adel Fahed Al Humaidhi
CEO

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

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
Income			
Management fees	22	1,600,914	1,745,286
Interest income	17	56,099	31,038
Commission income		823,582	943,901
Gain from sale of investment in an associate	7	323,478	-
Gain from sale of investment properties		-	1,033,822
Gain (loss) on investments		190,728	(274,376)
Dividend income		143,260	180,911
Share of results from an associate		(36,427)	520,375
Foreign exchange gain		67,243	157,518
Other income		8,921	4,360
Total income		3,177,798	4,342,835
Expenses			
Staff expenses		1,731,759	2,354,847
Other operating expenses		812,100	1,194,664
Depreciation	10	152,451	182,830
Interest expense	20	170,065	547,678
Total expenses		2,866,375	4,280,019
Profit before provisions and taxation		311,423	62,816
Provisions and impairment losses	18	(5,665,847)	(2,832,891)
LOSS FOR THE YEAR		(5,354,424)	(2,770,075)
Attributable to			
Shareholders of the company		(5,191,747)	(2,421,022)
Non-controlling interest		(162,677)	(349,053)
		(5,354,424)	(2,770,075)
BASIC AND DILUTED LOSS PER SHARE (FILS)	19	(19.9)	(9.3)

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Note	2016 KD	2015 KD
Loss for the year		(5,354,424)	(2,770,075)
Other comprehensive income (loss)			
Items that are or may be subsequently reclassified to consolidated profit or loss:			
Exchange differences on translation of foreign operations		-	359,724
Loss on hedge of net investments		-	(135,929)
Changes in fair value of investments available for sale		111,544	169,162
Net realised (gain) loss transferred to consolidated statement of profit or loss on sale of investments available for sale		(42,935)	29,983
Impairment loss on available for sale investment transferred to consolidated statement of profit or loss	18	1,097,367	34,887
Net realised gain transferred to consolidated statement of profit or loss on disposal of foreign operations		(304,426)	-
Other comprehensive income for the year		861,550	457,827
Total comprehensive loss for the year		(4,492,874)	(2,312,248)
Attributable to			
Shareholders of the company		(4,340,151)	(1,955,995)
Non-controlling interest		(152,723)	(356,253)
		(4,492,874)	(2,312,248)

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
Operating activities			
Loss for the year		(5,354,424)	(2,770,075)
Adjustments for:			
Interest income		(56,099)	(31,038)
(Gain) loss on disposal of investments available for sale		(42,935)	29,983
Dividend income		(143,260)	(180,911)
Share of results from an associate	7	36,427	(520,375)
Depreciation	10	152,451	182,830
Interest expense		170,065	547,678
Gain on sale of investment properties		-	(1,033,822)
Gain from sale of investment in an associate	7	(323,478)	-
Gain on disposals of equipment		(232)	-
Provisions and impairment losses	18	5,665,847	2,832,891
Operating income (loss) before changes in operating assets and liabilities		104,362	(942,839)
Investments at fair value through statement of profit or loss		(343,059)	535,190
Loans and advances		81,090	25,028
Other assets		(476,872)	2,816,544
Accounts payable and other liabilities		(320,793)	(329,008)
Interest income received		57,313	32,839
Net cash flows (used in) from operating activities		(897,959)	2,137,754
Investing activities			
Purchase of investments available for sale		(14,967)	(80,602)
Proceeds from sale of investments available for sale		1,122,766	7,633,016
Purchase of equipment- net	10	(82,371)	(68,530)
Dividend income received		143,260	180,911
Proceeds from sale of investment properties – net of expenses		-	1,893,719
Proceeds from sale of an associate	7	10,612,800	-
Net cash flows from investing activities		11,781,488	9,558,514
Financing activities			
Repayment of loans from bank	11	(10,529,084)	(9,674,437)
Ownership changes in subsidiary	2.4	(29,045)	338,745
Interest expense paid		(205,987)	(655,252)
Net cash flows used in financing activities		(10,764,116)	(9,990,944)
INCREASE IN CASH AND CASH EQUIVALENTS		119,413	1,705,324
Cash and cash equivalent at beginning of the year		2,890,052	1,184,728
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	3,009,465	2,890,052

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

Consolidated Statement of Changes In Equity

For the year ended 31 December 2016

	Attributable to the shareholders of the company		Reserves						
	Share capital KD	Accumulated losses KD	Fair valuation reserve KD	Foreign currency translation reserve KD	Treasury shares reserve KD	Total other reserves KD	Treasury shares KD	Non controlling interest KD	Total equity KD
Balance at 1 January 2016	26,381,499	(7,542,437)	(370,148)	304,426	2,042,260	1,976,538	(1,174,880)	1,770,820	21,411,540
Loss for the year	-	(5,191,747)	-	-	-	-	-	(162,677)	(5,354,424)
Other comprehensive income (loss) for the year	-	-	1,156,022	(304,426)	-	851,596	-	9,954	861,550
Total comprehensive (loss) income for the year	-	(5,191,747)	1,156,022	(304,426)	-	851,596	-	(152,723)	(4,492,874)
Ownership changes in a subsidiary during the year (Note 2.4)	-	-	-	-	-	-	-	(29,045)	(29,045)
Balance at 31 December 2016	**26,381,499**	**(12,734,184)**	**785,874**	**-**	**2,042,260**	**2,828,134**	**(1,174,880)**	**1,589,052**	**16,889,621**
Balance at 1 January 2015	26,381,499	(5,121,415)	(611,380)	80,631	2,042,260	1,511,511	(1,174,880)	1,788,328	23,385,043
Loss for the year	-	(2,421,022)	-	-	-	-	-	(349,053)	(2,770,075)
Other comprehensive income (loss) for the year	-	-	241,232	223,795	-	465,027	-	(7,200)	457,827
Total comprehensive (loss) income for the year	-	(2,421,022)	241,232	223,795	-	465,027	-	(356,253)	(2,312,248)
Ownership changes in a subsidiary during the year (Note 2.4)	-	-	-	-	-	-	-	338,745	338,745
Balance at 31 December 2015	**26,381,499**	**(7,542,437)**	**(370,148)**	**304,426**	**2,042,260**	**1,976,538**	**(1,174,880)**	**1,770,820**	**21,411,540**

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

Notes to the Consolidated Financial Statements

At 31 December 2016

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 financial investment activities in various economic sectors inside and outside the State of Kuwait directly or by contributing to the existing companies in the same activities through establishing subsidiaries or by participating with others in the establishment of specialized companies or by buying shares of these companies, portfolio management, investing and developing funds for its own account or for clients locally and internationally, trading of securities, issuance and managing securities, issuance of various types of bonds to third parties or otherwise, to exercise all types of brokerage activities, to do financing locally and internationally, acceptance and management of credit contracts and conducting studies, research and providing financial advices, according to the articles of association of the company. The address of the company's registered office is P.O. Box 819, Safat 13009, 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 new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 of November 2012.The new Executive Regulations of Law No. 1 of 2016 was issued on 12 July 2016 and was published in the Official Gazette on 17 July 2016 which cancelled the Executive Regulations of Law No. 25 of 2012.

The consolidated financial statements of the group for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 8 February 2017. 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 and CMA. 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 except for investments at fair value through profit or loss and investments available for sale carried at fairvalue.
The consolidated financial statements are presented in Kuwaiti Dinars (KD), which is also the functional currency of the company.

2.2- New standards and interpretations issued and effective

The accounting policies are consistent with those used in the previous year except for the adoption of amended IFRS that have become effective for annual periods beginning on or after 1 January 2016 and those which are applicable to the group:

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the group's financial statements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the group, given that it has not used a revenue-based method to depreciate its non-current assets.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2016

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2- New standards and interpretations issued and effective (continued)

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2016 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 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.

IFRS 9: Financial Instruments: Classification and Measurement

The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The group is in the process of quantifying the impact of this standard on the group's consolidated financial statements, when adopted.

IFRS 15: Revenue from Contracts with customers

IFRS 15 was issued by IASB on 28 May 2014, effective for annual periods beginning on or after 1 January 2018. IFRS 15 supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The group is in the process of evaluating the impact of IFRS 15 but does not expect any significant effect on adoption of this standard.

IFRS 16: Leases

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The group is in the process of evaluating the impact of IFRS 16 on the group's consolidated financial statements, but does not expect any significant effect on adoption of this standard.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2016

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4- Summary of significant accounting policies

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

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 are included in the consolidated statement of profit or loss 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 Company and to the non-controlling interest, even if this results in the non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

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

The subsidiaries of the group are as follows:

Name of the Subsidiaries	Country of incorporation	Principal activity	Percentage of holding 2016	2015
Al Awsat First Holding Company K.S.C.C.*	Kuwait	Investment	99.9%	97.0%
Middle East Financial Brokerage Company K.S.C.C ('MEFBC')	Kuwait	Brokerage	90.0%	90.0%
Gulf Gate Fund ("the Fund")	Kuwait	Fund	82.8%	81.7%

*Residual interest in the subsidiary is held through nominees.

During the year, the group's ownership in the Fund increased by 1.1% (2015: decreased by 12%) due to redemption in the Fund amounting to KD 29,045 (2015: additional subscriptions in the Fund amounting to KD 338,745).

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank, cash with brokers 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 profit or loss", "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 profit or loss, directly attributable transaction costs. Transaction costs on investments at fair value through statement of profit or loss are expensed immediately.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2016

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4- Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

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 profit or loss. 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 profit or loss.

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 profit or loss or loans and receivables and held to maturity.

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 profit or loss. 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 profit or loss

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

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

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.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2016

Notes to the Consolidated Financial Statements (continued)
At 31 December 2016

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4- Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Fair value (continued)

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

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

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

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

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 profit or loss or in other comprehensive income 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 profit or loss.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4- Summary of significant accounting policies (continued)
Financial assets and liabilities (continued)

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 profit or loss, is removed from equity and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments classified as investments available for sale recognised in the consolidated statement of profit or loss are not reversed through the consolidated statement of profit or loss.

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.

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

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.

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 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.

Notes to the Consolidated Financial Statements (continued)
At 31 December 2016

2- SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4- Summary of significant accounting policies (continued)

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 profit or loss 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 profit or loss in the period of retirement or disposal.

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 profit or loss.

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 2016

2- SIGNIFICANT ACCOUNTING POLICIES (continued)
2.4- 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 KD 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 KD at the foreign exchange rates prevailing at the dates that the values were determined. Translation differences on non-monetary investments at fair value through profit or loss are reported as part of the fair value gain or loss in the consolidated statement of profit or loss, whilst those for available for sale non-monetary assets are included in the consolidated statement of other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are not retranslated.

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.

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.

2.5- 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.

Notes to the Consolidated Financial Statements (continued)
At 31 December 2016

2- SIGNIFICANT ACCOUNTING POLICIES (continued)
2.5- Significant accounting judgments, estimates and assumptions (continued)

Impairment losses on loans and advances

The group reviews its problem loans and advances on an annual basis to assess whether a provision for impairment should be recorded in the consolidated statement of profit or loss. 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;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- other valuation models.

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.

3- CASH AND CASH EQUIVALENTS

	2016 KD	2015 KD
Cash on hand	1,600	2,100
Cash at banks	3,007,865	2,887,952
	3,009,465	2,890,052

Certain balances included in cash at banks are placed with related parties (Note 20).

4- TERM DEPOSITS
Term deposits are held with commercial banks in the region, for a period of one year, at interest rate of 1.25% (2015: 1.25%) per annum.

Notes to the Consolidated Financial Statements (continued)
At 31 December 2016

5- INVESTMENTS

	2016 KD	2015 KD
Investments at fair value through statement of profit or loss		
Financial assets held for trading:		
Quoted equity securities	1,684,747	1,338,535
Managed funds	213,230	216,384
	1,897,977	1,554,919
Investments available for sale		
Quoted equity securities	960,826	1,077,035
Unquoted equity securities	210,306	238,809
Funds	5,048,468	6,076,614
	6,219,600	7,392,458
	8,117,577	8,947,377

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 2016 was 3,072,524 (2015: KD 3,081,320). The group has recorded unrealised loss of KD 22,068 (2015: unrealised loss of KD 33,373) 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 loss would have been recorded in the consolidated statement of profit or loss.

Certain investments available for sale amounting to KD 3.7 million (2015: KD 4.5 million) are pledged as security against the loan (Note 11).

6- LOANS AND ADVANCES

	2016 KD	2015 KD
Loans to customers	7,745,220	7,827,379
Loans to staff	17,817	19,547
	7,763,037	7,846,926
Less: General provision	(2,631)	(3,387)
Less: Specific provision	(6,750,000)	(3,758,264)
	1,010,406	4,085,275

Movement in the provisions relating to loans and advances are as follows:

	2016 KD	2015 KD
At 1 January	3,761,651	1,517,130
Movement in provision	2,990,980	2,244,521
	6,752,631	3,761,651

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.

7- INVESTMENT IN AN ASSOCIATE
During the year, investment in the associate has been sold to the parent company for a total consideration of KD 10,612,800 (Note 20).

Notes to the Consolidated Financial Statements (continued)

At 31 December 2016

8- OTHER ASSETS

	2016 KD	2015 KD
Accrued management fee	**398,046**	422,285
Commission income receivable	**350,970**	271,727
Receivable from sale of investments	**454,435**	50,536
Prepaid expenses	**137,990**	82,558
KSE Broker deposit	**250,000**	250,000
Others	**300,716**	344,030
	1,892,157	1,421,136

9- INTANGIBLE ASSET

Intangible asset represent brokerage licence acquired from Kuwait Stock Exchange. This licence has indefinite useful life.

Impairment testing

The group determines whether brokerage license is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating unit (CGU) to which these item is 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.

This annual impairment test has been performed during the time when there is continuous deterioration of trading volumes in capital market of Kuwait which impacted profitability from local brokerage and online trading business segment as compared to the Budget. Management revised assumptions about the pace of trading volumes, market share, terminal growth rate and discount rate. These changes are reflected in our revision of five year forecasted cash flows and terminal values which are used to determine the recoverable value.

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. A discount rate of 9% to 10% (2015: 9% to 10%) and terminal growth rate of 2.5% to 3 (2015: of 3% to 4%) is used to estimate the recoverable amount of this 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.

As a result of above analysis, an impairment loss on brokerage license of KD 1,550,000 (2015: KD 2,350,000) (Note 18) has been charged during the year to reduce carrying value to its recoverable value.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2016

10- EQUIPMENT

	Furniture and equipment KD	Computers KD	Software KD	Capital work in progress KD	Total KD
Cost					
At 1 January 2016	1,634,633	1,289,966	1,880,420	77,426	4,882,445
Additions/Transfers	14,557	1,274	112,090	(38,900)	89,021
Disposals	(86,174)	(1,164)	-	(5,825)	(93,163)
At 31 December 2016	**1,563,016**	**1,290,076**	**1,992,510**	**32,701**	**4,878,303**
Accumulated depreciation					
At 1 January 2016	1,591,298	1,285,677	1,287,233	-	4,164,208
Depreciation	16,854	3,880	131,717	-	152,451
Impairment loss	-	-	-	24,701	24,701
Disposals	(86,150)	(595)	-	-	(86,745)
At 31 December 2016	**1,522,002**	**1,288,962**	**1,418,950**	**24,701**	**4,254,615**
Net book value at 31 December 2016	**41,014**	**1,114**	**573,560**	**8,000**	**623,688**

	Furniture and equipment KD	Computers KD	Software KD	Capital work in progress KD	Total KD
Cost					
At 1 January 2015	1,656,585	1,288,375	1,876,070	18,151	4,839,181
Additions/Transfers	32,308	3,167	4,350	59,275	99,100
Disposals	(54,260)	(1,576)	-	-	(55,836)
At 31 December 2015	1,634,633	1,289,966	1,880,420	77,426	4,882,445
Accumulated depreciation					
At 1 January 2015	1,630,326	1,257,578	1,153,066	-	4,040,970
Depreciation	14,942	29,071	134,167	-	178,180
Disposals	(53,970)	(972)	-	-	(54,942)
At 31 December 2015	1,591,298	1,285,677	1,287,233	-	4,164,208
Net book value at 31 December 2015	43,335	4,289	593,187	77,426	718,237

11- 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 2.4), certain investments available for sale (Note 5), and loans and advances (Note 6). The loans were carried at effective interest rate of 3.25% (2015: 3%) per annum. During the year, loan of KD 10,529,084 (2015: KD 9,674,437) has been repaid.

12- ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2016 KD	2015 KD
End of service benefits	**1,160,464**	1,399,018
Other staff payables	**114,154**	244,734
Loan interest payable	**27,688**	67,823
Brokerage payables	**25,186**	35,577
Others	**1,868,165**	1,814,767
	3,195,657	3,561,919

Notes to the Consolidated Financial Statements (continued)
At 31 December 2016

13- SHARE CAPITAL
The authorised, issued and paid capital of the company is as follows:

	2016 KD	2015 KD
Authorised: 263,814,991 (2015: 263,814,991) shares of 100 fils each	26,381,499	26,381,499
Issued and fully paid up: 263,814,991 shares of 100 fils each paid in cash	26,381,499	26,381,499

The issued and fully paid up share capital includes 15,837,638 shares amounting to KD 1,583,764 (2015: 15,837,638 shares amounting to KD 1,583,764) on account of share option plan for employees.

14- OTHER RESERVES
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 as the company has incurred a loss.

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.

No transfer has been made to the reserve during the year as the company has incurred a loss.

Treasury shares reserve
The balance of treasury shares reserve is not available for distribution.

15- TREASURY SHARES

	2016 KD	2015 KD
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)	60,341	69,523
Weighted average market value per treasury share (fils)	25.0	32.6

Treasury shares are not entitled to any cash dividends and are not pledged. Treasury shares reserve balance of KD 2,042,260 (2015: KD 2,042,260) is not available for distribution. An amount equivalent to the cost of purchase of treasury shares (unpledged) have been earmarked as non-distributable throughout the holding period of treasury shares.

Notes to the Consolidated Financial Statements (continued)
At 31 December 2016

16- NON CONTROLLING INTEREST
The table below shows details of partly owned subsidiaries of the group that have material non-controlling interest:

Name of the Subsidiaries	Proportion of ownership interest and voting rights		(Loss) profit allocated to non-controlling interest		Accumulated non-controlling interest	
	2016 KD	2015 KD	2016 KD	2015 KD	2016 KD	2015 KD
Middle East Financial Brokerage Co (MEFBC)	10%	10%	(193,502)	(269,181)	1,158,737	1,342,285
Gulf Gate Fund (The Fund)	17%	18%	30,825	(79,872)	430,315	428,535
Total			(162,677)	(349,053)	1,589,052	1,770,820

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

	2016		2015	
	MEFBC KD	The Fund KD	MEFBC KD	The Fund KD
Total assets	12,057,833	2,507,660	13,695,464	2,358,615
Total liabilities	312,616	11,243	251,768	11,520
Total income	402,574	224,259	340,799	(95,230)
Total expenses	(2,337,593)	(45,891)	(3,032,610)	(51,004)
Total (loss) profit for the year	(1,935,019)	178,368	(2,691,811)	(146,234)
Net (decrease) increase in operating activities	(89,382)	(626,487)	(203,733)	386,728
Net increase in investing activities	82,325	-	194,238	-
Net decrease in financing activities	-	(29,045)	-	(410,909)
Net decrease in cash and cash equivalents	(7,057)	(655,532)	(9,495)	(24,181)

17- INTEREST INCOME

	2016 KD	2015 KD
Term deposits and bank balances	40,722	9,542
Loans and advances	15,377	21,496
	56,099	31,038

18- PROVISIONS AND IMPAIRMENT LOSSES

	2016 KD	2015 KD
Net provision on loans and advances and claims	2,993,779	3,098,004
Impairment loss on intangible asset (Note 9)	1,550,000	2,350,000
Impairment loss on investments available for sale	1,097,367	34,887
Impairment loss on equipment (Note 10)	24,701	-
Reversal of provision on other assets	-	(2,650,000)
	5,665,847	2,832,891

Notes to the Consolidated Financial Statements (continued)

At 31 December 2016

19- BASIC AND DILUTED LOSS PER SHARE

Basic and diluted 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:

	2016 KD	2015 KD
Loss for the year attributable to the shareholders of the company (KD)	(5,191,747)	(2,421,022)
Weighted average number of shares outstanding during the year	261,191,491	261,191,491
Basic and diluted loss per share (fils)	(19.9)	(9.3)

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

	2016 KD	2015 KD
Weighted average number of issued and paid up shares (Note 13)	263,814,991	263,814,991
Less: Weighted average number of treasury shares (Note 15)	(2,623,500)	(2,623,500)
Weighted average number of shares	261,191,491	261,191,491

20- 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 at arm's length on terms approved by the company's management.

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

	2016 KD	2015 KD
Related party balances		
Cash placed with the parent company (Note 3)	2,833,408	2,055,766
Investments in funds managed by the company	3,821,856	4,747,882
Receivable from the parent company	20,398	10,316
Receivable from other related parties	343,679	264,674
Advance salary to key management personnel	15,000	-
Loans taken from the parent company (Note 11)	3,223,840	13,752,924
Off balance sheet items		
Guarantees taken from the parent company	500	500
Investments and funds managed in a fiduciary capacity for parent company	13,102,102	18,315,566
Related party transactions		
Management fees from parent company	13,718	32,666
Interest income from parent company	39,313	10,432
Gain from investment properties sold to parent company	-	529,206
Gain from available for sale investments sold to parent company	-	880,774
Gain from sale of investment in an associate to parent company (Note 7)	323,478	-
Net gain (loss) from sale of investments in managed funds	31,562	(906,767)
Interest expense on loans taken from the parent company	(170,065)	(547,678)
Key management compensation		
Salaries and other short term benefits	(466,474)	(650,688)

Notes to the Consolidated Financial Statements (continued)

At 31 December 2016

21- COMMITMENTS AND CONTINGENT LIABILITIES

	2016 KD	2015 KD
Commitments		
Uncalled capital contributions relating to investments available for sale	48,934	48,527
Contingent liabilities		
Guarantees	251,250	251,250

Guarantees issued by the group noted above exclude a guarantee of KD 46.75 million (2015: KD 46.36 million) since 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.

22- 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 2016, total fiduciary assets managed by the company amounted to KD 450 million (2015: KD 455 million). Management fee of KD 1,600,914 (2015: KD 1,745,286) has been recognised by the company for management of fiduciary assets.

23- 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, other assets, intangible assets and equipment 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 3 months		3 to 12 months		Over one year		Total	
	2016 KD	2015 KD	2016 KD	2015 KD	2016 KD	2015 KD	2016 KD	2015 KD
Assets								
Cash and cash equivalents	3,009,465	2,890,052	-	-	-	-	3,009,465	2,890,052
Term deposits	55,825	55,825	-	-	-	-	55,825	55,825
Investments	1,897,977	4,081,386	-	546,871	6,219,600	4,319,120	8,117,577	8,947,377
Loans and advances	750,000	42,372	260,406	4,042,903	-	-	1,010,406	4,085,275
Investment in an associate	-	-	-	-	-	10,458,481	-	10,458,481
Other assets	1,500,781	767,557	368,245	293,044	23,131	360,535	1,892,157	1,421,136
Intangible assets	-	-	-	-	8,600,000	10,150,000	8,600,000	10,150,000
Equipment	-	-	-	-	623,688	718,237	623,688	718,237
	7,214,048	7,837,192	628,651	4,882,818	15,466,419	26,006,373	23,309,118	38,726,383
Liabilities								
Loans from bank*	3,223,840	13,752,924	-	-		-	3,223,840	13,752,924
Accounts payable and other liabilities	337,065	206,209	211,228	469,792	2,647,364	2,885,918	3,195,657	3,561,919
	3,560,905	13,959,133	211,228	469,792	2,647,364	2,885,918	6,419,497	17,314,843
Net liquidity gap	3,653,143	(6,121,941)	417,423	4,413,026	12,819,055	23,120,455	16,889,621	21,411,540

* It represents loan from the parent company and is renewed upon maturity.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2016

24- SEGMENT INFORMATION

The group is organized 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	Total KD
2016					
Segment revenue	1,825,853	823,582	15,377	512,986	3,177,798
Segment operating expenses	(847,590)	(1,056,602)	(132,989)	(829,194)	(2,866,375)
Provisions and impairment losses	-	(1,574,701)	(2,993,779)	(1,097,367)	(5,665,847)
Segment results	978,263	(1,807,721)	(3,111,391)	(1,413,575)	(5,354,424)
Segment assets	3,106,951	9,573,312	1,206,324	9,422,531	23,309,118
Segment liabilities	(584,273)	(322,419)	(3,258,978)	(2,253,827)	(6,419,497)
	2,522,678	9,250,893	(2,052,654)	7,168,704	16,889,621
2015					
Segment revenue	1,642,103	943,901	30,222	1,726,609	4,342,835
Segment expenses	(1,161,440)	(1,359,752)	(177,421)	(1,581,406)	(4,280,019)
Provisions and impairment losses	-	(2,350,000)	(2,244,521)	1,761,630	(2,832,891)
Segment results	480,663	(2,765,851)	(2,391,720)	1,906,833	(2,770,075)
Segment assets	3,098,113	11,021,697	4,303,855	20,302,718	38,726,383
Segment liabilities	(686,564)	(335,182)	(4,026,526)	(12,266,571)	(17,314,843)
	2,411,549	10,686,515	277,329	8,036,147	21,411,540

Notes to the Consolidated Financial Statements (continued)

At 31 December 2016

25- FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	Level: 1 KD	Level: 2 KD	Level: 3 KD	Total KD
2016				
Investments at fair value through profit or loss				
Quoted equity securities and managed funds	1,684,747	213,230	-	1,897,977
Investments available for sale				
Equity securities	960,826	-	210,306	1,171,132
Funds	823,456	1,495,182	2,729,830	5,048,468
	1,784,282	1,495,182	2,940,136	6,219,600
2015				
Investments at fair value through profit or loss				
Quoted equity securities and managed funds	1,338,535	216,384	-	1,554,919
Investments available for sale				
Equity securities	1,077,035	-	238,809	1,315,844
Funds	1,651,376	1,690,883	2,734,355	6,076,614
	2,728,411	1,690,883	2,973,164	7,392,458

There have been no transfers between level 1, level 2 and level 3 during the year.

The management has used the following methods and assumptions to estimate the fair values of financial assets:

- Quoted equity securities have been fair valued based on their bid price on the respective stock exchange at the reporting date.
- Fair values of unquoted equity securities are derived through recent sale transaction. Fair values of unquoted funds are measured based on their latest net asset values provided by the respective fund manager.

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

Level 3 fair value measurements

The group's financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data.

Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognised in the statement of profit or loss and other comprehensive income or total assets.

The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	2016 KD	2015 KD
At 1 January	2,973,164	5,763,772
Net realised gain recognized in statement of profit or loss and other comprehensive income	-	(957,949)
Cost of investments sold	-	(2,644,930)
Change in fair value	(33,028)	812,271
At 31 December	2,940,136	2,973,164

Notes to the Consolidated Financial Statements (continued)
At 31 December 2016

26- 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 recognizes 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 analyze 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.

All aspects of the group's financial risk management objectives and policies are consistent with those disclosed in the annual consolidated financial statements for the year ended 31 December 2015.

26.1- 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.

	2016 KD	2015 KD
Cash at banks	3,007,865	2,887,952
Term deposits	55,825	55,825
Loans and advances	1,010,406	4,085,275
Other assets (excluding prepaid expenses)	1,754,167	1,338,578
Gross maximum credit risk exposure	5,828,263	8,367,630

The maximum credit exposure to any single client or counterparty was KD 750,000 (2015: KD 3,750,000) 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.

Notes to the Consolidated Financial Statements (continued)
At 31 December 2016

26- RISK MANAGEMENT (continued)

26.1- Credit risk (continued)

Collateral and other credit enhancements (continued)

The fair value of collateral that the group holds relating to loans and advances and other assets amounts to KD 10,077,008 (2015: KD 10,190,560).

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.

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	
	2016 KD	2015 KD	2016 KD	2015 KD
Geographic region:				
Kuwait	5,237,140	7,560,862	251,250	251,250
Other Middle East*	591,123	806,768	-	-
Rest of the World	-	-	48,934	48,527
	5,828,263	8,367,630	300,184	299,777

*Other Middle East countries includes GCC countries excluding Kuwait.

	Assets 2016 KD	Assets 2015 KD	Contingent 2016 KD	Contingent 2015 KD
Industry sector:				
Banks and financial institutions	5,788,026	8,328,865	250,000	250,000
Other	40,237	38,765	50,184	49,777
	5,828,263	8,367,630	300,184	299,777

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

In accordance with the instructions of the CBK 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.

Impaired financial assets

As at 31 December 2016, other assets, and loans and advances exposed to credit risk of KD 7,500,000 (2015: KD 7,508,264) were impaired against which the group carries a provision of KD 6,750,000 (2015: KD 3,758,264).

Notes to the Consolidated Financial Statements (continued)
At 31 December 2016

26- RISK MANAGEMENT (continued)

26.2- 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 3 months		3 to 12 months		Over one year		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Financial liabilities	KD	KD	KD	KD	KD	KD	KD	KD
Loans from banks	3,225,275	13,819,617	-	-	-	-	3,225,275	13,819,617
Accounts payable and other liabilities	337,065	206,209	211,228	469,792	2,647,364	2,885,918	3,195,657	3,561,919
Total undiscounted financial liabilities	3,562,340	14,025,826	211,228	469,792	2,647,364	2,885,918	6,420,932	17,381,536
Contingent liabilities and commitments	750	750	250,500	250,500	48,934	48,527	300,184	299,777

Refer to Note 23 'Maturity analysis of assets and liabilities' for maturities of the financial liabilities shown above; which exclude future interest payments.

26.3- 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.

26.3.1- 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.

Notes to the Consolidated Financial Statements (continued)
At 31 December 2016

26- RISK MANAGEMENT (continued)

26.3- Market risk (continued)

26.3.1- Interest rate risk (continued)

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

	Increase of 25 basis points	
Currency	Effect on statement of profit or loss	
	2016	2015
	KD	KD
Kuwaiti Dinar	(1,655)	(34,072)
US Dollar	613	646

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

26.3.2- 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:

		2016		2015	
Market indices	Increase in equity price %	Effect on statement of profit or loss KD	Effect on other comprehensive income KD	Effect on statement of profit or loss KD	Effect on other comprehensive income KD
Kuwait Index	5%	6,038	102,279	8,518	77,500
Other GCC Indices	5%	74,845	-	57,646	-

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

26.3.3- 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.

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:

Currency	2016 KD	2015 KD
US Dollar	1,741,326	1,871,203
GCC currencies	2,397,746	12,458,959
Other currencies	5,057	17,417
	4,144,129	14,347,579

Notes to the Consolidated Financial Statements (continued)

At 31 December 2016

26- RISK MANAGEMENT (continued)

26.3- Market risk (continued)

26.3.3- Foreign currency risk (continued)

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

		2016		2015	
Currency	**Change in currency rate**	**Effect on statement of profit or loss KD**	**Effect on equity KD**	Effect on statement of profit or loss KD	Effect on equity KD
US Dollar	5%	**(13,772)**	**(73,294)**	(13,351)	(80,209)
GCC currencies	5%	**(119,887)**	**-**	(100,024)	(522,924)
Other currencies	5%	**(253)**	**-**	(871)	-

26.3.4- 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.

27- CAPITAL MANAGEMENT

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The group manages its capital structure and makes adjustments 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 2016.

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.