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K M E F I C

شركة الكويت والشرق الأوسط للاستثمار المالي

Kuwait and Middle East Financial Investment Company

نعمل
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القادمة

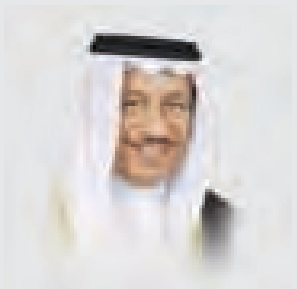
التقرير السنوي ٢٠١٧



HIS HIGHNESS
SHEIKH SABAH AL-AHMED AL-JABER ALSABAH
THE AMIR OF KUWAIT



HIS HIGHNESS
SHEIKH NAWAF AL-AHMED AL-JABER AL-SABAH
THE CRWON PRINCE



HIS HIGHNESS
SHEIKH JABER AL-MOUBARAK AL-AHMED ALSABAH
THE PRIME MINISTER

C O N T E N T S

- 03 - Chairman Message
- 07 - Board of Directors
- 08 - Corporate Governance Report
- 27 - Independent Auditors' Report
- 32 - Consolidated Statement of Financial Position
- 33 - Consolidated Statement of Profit or Loss
- 34 - Consolidated Statement of Profit or Loss and Other Comprehensive Income
- 35 - Consolidated Statement of Changes in Equity
- 36 - Consolidated Statement of Cash Flows
- 37 - Notes to the Consolidated Financial Statements



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Chairman's Message

Dear shareholders,

The year 2017 witnessed a broad-based rally in asset prices, primarily driven by steady global growth, low inflation, and accommodative monetary policies. Strengthening economies of emerging markets, well supported by a weakening dollar, outperformed the US market. The MSCI emerging markets index occupied the top spot in various assets class, with a gain of 34.3% and far ahead than MSCI developed markets category, which increased by 20.1% during the year. Moreover, despite a mixed performance of GCC markets, the MSCI MENA index surged 21%, well supported by record gains of Egypt (up by 21.7%), Tunisia (up by 14.4%), Bahrain (up by 9.1%) and Kuwait (up by 5.6%) while a hefty drop recorded by Qatar and UAE markets partially offset these gains.

Geopolitical issues kept markets vulnerable as all GCC markets were impacted but with varying degrees, specifically the Qatari market, which fell by 18.3% in the year while restricting the surge in other GCC members. Impulsive reactions by retail investors on geopolitical issues and concerns over macroeconomic side due to oil prices, witnessed a frequent sell-off which never allowed markets to boom during the year.

The positive sentiments surrounding the likely FTSE qualification of Kuwait and Saudi Arabia pushed markets higher, which was later followed by profit booking. Although, on contrary, Saudi Arabia could not make it to the Emerging Market category, as the decision was postponed until March 2018. While, upon the confirmation of Kuwait, being select for the category, provided a big boost to investors sentiments and also supported market activity.

Trading activities in GCC markets witnessed a drop for the third year in a row. The total value traded on the GCC exchanges declined by almost 22.0%, owing to a fall in trading activities

across all markets due to regional developments with the exception of Kuwait which reported a significant growth in trading activity in 2017 to reach USD 38 Bn.

On market capitalization side, despite low trading activity, a surge in heavyweights like Saudi Arabia, UAE and Kuwait, balanced the sharp drop in Qatar market as the combined market capitalization of GCC bourses remained almost unchanged at USD 940 billion, a level seen at the end of Year 2016.

Oil, being the biggest economic contributor to GCC economies, could not revive investment sentiments much despite a well-balanced "supply and demand policy", adopted by the OPEC, which supported oil prices. Oil production cut led by Saudi Arabia pushed the price of oil up by 17.7% during the year.

GCC economies continued their previous years' efforts to consolidate fiscal reforms due to volatile oil prices and sustained rate hikes in the United States. For Kuwait, the long-term outlook will continue to depend on hydrocarbon revenues. Kuwait plans to increase its "Oil Production Capacity" steadily in 2015-30, through capacity-boosting projects, keeping real GDP growth above 2% on average. The government's commitment to structural reform is expected to lead to some reduction in Kuwait's dependence on hydrocarbons and the state dominance of the economy. Further, on the home-ground, Kuwait's medium-term economic outlook looks positive, driven by accelerated project implementation under the 5-year development plan and improved confidence, with non-oil growth is projected to increase gradually to about 4% per annum. Moreover, the overall fiscal balance is projected to remain nearly balanced. In addition, the recent rise in oil prices will be favorable for financial stability and credit growth of Kuwait economy.

Company's performance

During 2017, KMEFIC increased its operating income by 3% as it increased to KD 2.9 million from KD 2.8 million in 2016. The key reasons for higher operating income were improved performance of brokerage and asset management divisions.

On the operating expenses side, the Company reduced its operating expenses by 3.4% to KD 2.8 million from KD 2.9 million in the year before. During 2017, total provision charge reduced significantly to KD 0.95 million as compared to KD 5.7 million in the previous year.

The higher operating income and lower operating expenses helped the company to achieve a profit before provisions of KD 408 thousand during the current year as compared to KD 311 thousand profit during the previous year. Because of the provision charge, the net loss attributable to its shareholders was KD 587 thousand as compared to a loss of KD 5.19 million for the year 2016. This translated into basic and diluted loss per share of 2.2 fils in 2017 compared to basic and diluted loss per share of 19.9 fils during 2016.

Asset Management

The year-end performance of GCC and Kuwaiti shares' strategies were mixed, as most Gulf region markets except for Kuwait and Bahrain experienced bearish sentiments and stagnation throughout the year. The local market however experienced a bull run in the first quarter of 2017 which accounts for most of the gains of the strategy for the year. Both Strategies broadly mirrored the market performance as volatility closely mirrored that of the relevant markets. Locally Q1 performance was largely attributable to market momentum as buying momentum drove the market upwards. Q2 saw the first of two periods of profit taking which impacted the performance. The regional markets however offered little to no opportunity during the first three quarters with the exception of a temporary recovery during Q3 in both local and regional markets. There was a fair bit of cognitive

dissonance involved as the fundamentals often did not support market direction which was most evident when the Kuwait market dropped after an initial positive reaction to news of an upgrade to FTSE Emerging Market status. While the initial reaction caused an increase in market valuations the subsequent profit taking drove market performance downward with a recovery eventually occurring in December. Regional markets experienced large swings in volatility throughout the year with only 3 markets ending the year in the green. Saudi Arabia which accounts for 50% of the total GCC market cap experienced a rough 3 quarters which was salvaged only by a late Q4 rally to end flat at +0.2%. The MSCI GCC index was largely flat as well at +0.7% gain for the year. The performance may be attributed to the myriad geo-political issues that were evident throughout the year.

As for the global investment performance, the firm's manager and allocation selection helped navigate a difficult year as developed markets offered pricey valuations in addition to periods of political uncertainty. Overall the global portfolios managed to achieve outstanding performance in select asset classes which helped mitigate flat performances from other asset classes.

KMEFIC has maintained a consistent strategy to provide innovative products and strategies for the firm's local and regional clients. This enabled the firm to moderately increase its fee income to KD 1.62 million in 2017. It is actively working to introduce new and innovative products for existing and prospective clients. Few of these new products are planned to be launched in 2018.

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". KSE trading volume for 2017 was KD 11.5 BN compared to KD 5.7 BN during 2016. As a result of increase in market volumes, KMEFIC's commission revenue increased to KD 1.11 million during the current

year from KD 0.82 million in the previous year. Meanwhile, the management remains focused on its strategy of launching new funds, attracting high value customers, ensuring diversification between portfolios, funds and individuals. To improve customer experience, MEFBC is in the process of implementing its order management system and new online trading features.

Online Services

KMEFIC continues to offer the online trading for the GCC, MENA and the US markets. In order to support and enhance our online services, KMEFIC has initiated soft launch of a new global platform which it is planning to fully launch by June 2018. The new online trading platforms will let investors trade in US, Europe and Asia. In addition, the new platform is capable of trading in Derivatives, Fixed income and FX. 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), and to provide our clients with the latest technologies, features and interfaces which are continuously evolving. Going forward KMEFIC aims to stay at par with new technological advances to give our customers the best experiences in all our services and interfaces.

Closing thoughts and outlook

The most important factors for the next year for the regional and global markets are expected improvements in the regional geo-political situation, expected stability in the oil market with upward bias, and the continued increase in interest rate environment by Federal Reserve and potentially ECB.

We, at KMEFIC, aim to maintain practical investment philosophy and apply an approach of targeting the assets of acceptable risks and appropriate returns to continue in our efforts to find valuable opportunities that realize our clients' objectives. The company will maintain its strategy to liquidate its non-performing long-term assets, improve performances of its subsidiaries, reduce

interest burden and focus on the profit growth, in addition to a renewed focus on introducing new products. In the end, I would like to extend my appreciation and gratitude to KMEFIC management and its staff for their continuous 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.



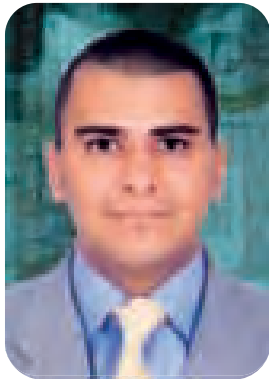
Ahmed Zulficar
Chairman



Board of Directors



Ahmed Zulficar
Chairman



Hesham Zaghloul
Vice Chairman



Rajeev Gogia
Director



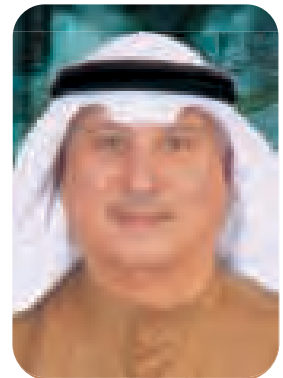
Adel Al Humaidhi
Director & CEO



Michael Essex
Director



Wafa Al Shehabi
Independent Director



Basil Al Zaid
Independent Director

Corporate Governance Report for 2017

Speech of the Chairman

Ladies and gentlemen, shareholders of Kuwait & Middle Financial Investment Company KSCP (KMEFIC)

On behalf of myself and the Board of Directors, I am pleased to produce to the esteemed shareholder's Corporate Governance report of Kuwait & Middle Financial Investment Company KSCP for the year 2017.

Corporate Governance rules of companies are represented in the principles, systems and procedures that encompass the best protection and balance between the interests of company's management and its shareholders as well as other stakeholders associated with the Company. The main objective, however, is to apply Corporate Governance rules to guarantee that the Company keep pace with the objectives of the shareholders by ensuring that the Executive Management of the company are doing their responsibilities in the best way and in a manner that reinforces trust of the investors of the Company's efficient performance and ability to face crises and reinforces the competition to gain realistic developments. Hence, the rules of Corporate Governance regulate the methodology of adopting all resolutions inside the Company to enhance transparency and credibility of our business and operations.

One of the most important objectives of the rules of Corporate Governance is to protect the interest of the stakeholders and to segregate the authorities exercised by the Executive Management that manages Company's business and the authorities of the Board of Directors that prepares and reviews plans and policies of the Company in a manner that ensures fairness in dealing, transparent and enhances trust in dealing with all parties. Further, it enables shareholders and stakeholders to effectively control the Company, to keep pace with the regulations of the Capital Markets Authority to improve business environment, transparency

and to protect shareholders. Further, we enforce all laws, regulations and the best practices that keep pace with our principles, values, corporate strategy and professional basis which would lead our business to realize the interests of our dear shareholders.

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 are 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 affects the performance of the Company and validity of its financial position, the Company has 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's Board has majority of non-executive members, elected members and two independent directors. Further, the Company is keen that the Board of Directors must include members of diverse experiences in the field of Company's business and in the accounting and financial fields to add skills and 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 Zulficar

Chairman (Non-executive)

Mr. Ahmed has more than 31 years of experience in leading positions in the finance and banking sector. He was employed in the field of banking services at Chase National Bank, Cairo Saudi Bank, National Bank of Kuwait and currently with Ahli United Bank. Mr. Ahmed joined Ahli United Bank in 2007, currently serves as Senior Deputy Chief Executive Officer (Risk, Compliance, Finance, Information Technology and Operations), Head of Credit Committee, Head of Risk Management Committee and member of the Senior Credit Committee and Assets and Liabilities Management Committee. He has obtained Bachelor Degree of Commerce, Accounting major from Cairo University in 1976. Mr. Ahmed is a director at KMEFIC since 2010 and he is elected as the Chairman of the current board from 2016. Mr. Ahmed is Chairman of Board Executive Committee.

Mr. Hesham Zaghloul

Vice Chairman (Non-executive)

Mr. Hisham has more than 19 years experience in the banking and financial services. He obtained Bachelor Degree in Economics and Political Science from Cairo University in 2001 and he has been employed in several banks and institutions in the Gulf States and North Africa. He has joined Ahli United Bank in 2007 and currently occupies the post of Senior General Manager for Banking services for financial companies and institutions at Ahli United Bank (Kuwait). Further, he is a Director at Iraqi Commercial Bank (Iraq) and a member of the Senior Credit Committee, Assets and Liabilities Management Committee at 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). He is a Director at KMEFIC since 2014 and he was elected as Vice Chairman in the current board from 2016 and a member of KMEFIC's Board Risk Committee, Executive committee and Nomination and Remuneration committee.

Mr. Adel Fahed Al-Humaidhi

Director and Chief Executive Officer

Mr. Adel has varied experience of more than 29 years in financial and investment fields in the local and international markets. Mr. Adel joined KMEFIC in 1997 at Asset Management Department. He obtained Bachelor degree in Business Administration from Concordia University, USA and was a Director at Kuwait Industrial Bank and Middle East Financial Investment Company (KSA). He is currently the Chairman of Middle East Financial Brokerage Company and has been elected as a Director at KMEFIC current board since 2016. Mr. Adel is a member of Board Executive Committee.

Mr. Wafa Al-Shihabi

Independent Director

Over the past 41 years, Mr. Wafa had held 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, Mr. Shihabi 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. He is a Director at KMEFIC since 2016. He is also the Chairman of Board Risk Committee of KMEFIC.

Mr. Rajeev Gogia

Director (Non-executive)

Mr. Rajeev is a business strategist, capital management/ allocation and corporate finance professional with 21 years of industry and management consulting experience in the Financial Services Sector in the Middle East and India. He joined Ahli United Bank BSC in 2007 as Group Head of Strategic Development. His previous experience include National Bank of Dubai, KPMG Consulting (UAE) and Industrial Finance Corporation of India. He is a Chartered Accountant from the Institute of Chartered Accountants of India. He is also a Board member

in Ahli United Bank (Egypt) S.A.E., Al Hilal Life B.S.C. (C) and Al Hilal Takaful B.S.C. (C). He is a Director with KMEFIC since 2013. Mr.Rajeev is a member of the Board Audit and Compliance Committee and Board Risk Committee.

Mr. Basil Abdulwahed Al-Zaid

Independent Director

Mr. Basil Zaid has more than 30 years of administrative experience in finance, treasury, international investment, real estate, accounts, purchases, development, IT and financial planning. He obtained Master Degree in Business Administration and International Relations from Webster University, USA. He joined in United Arab Shipping Company since 2001 and was a director of the Finance Department as well as the Chairman of Board of Trustees of the Company until 2017. Further, he is a Director in several companies and has been elected as an Independent Director of the current board of KMEFIC since 2016. Mr.Basel is a member of Board Audit and Compliance Committee and Nomination and Remuneration Committee.

Mr. Michael Gerald Essex

Director (Non-Executive)

Mr. Michael has more than 41 years of experience in banking, investment and financial sectors. He is experienced in communication developments, customer relations management, financing infrastructure, capital investment, projects finance, banking services of companies and consulting services in the emerging markets. He is a Board member in many banks and funds in the Gulf, India, Egypt and London. He has been a Director and Head of Audit and Compliance Committee and Nomination and Remunerations Committee at Ahli United Bank since 2012. He is having a Master Degree in the General Administration from Carlton University, Canada during 1975. Further, he has obtained a certificate in the Executive Development Program from Harvard business college, Boston, USA in 1997. He has been elected as Board member of KMEFIC since 2016. He is also the Chairman of KMEFIC's Audit and Compliance Committee and Chairman of Nomination and Remuneration Committee.

Hereunder are the 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 Zulficar | Chairman – Non-Executive | Bachelor degree in Commerce, Accounting major | 4 August 2016 |
| Hisham Zaghloul | Vice Chairman – Non-Executive | Bachelor Degree in Economics and Political Science | 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 General Administration | 4 August 2016 |
| Rajeev Gogia | Director/ Non-Executive | Chartered Accountant from Institute of Chartered Accountant of India | 4 August 2016 |
| Basil Al-Zaid | Director / Independent | Master Degree in Business Administration and International Relations | 4 August 2016 |
| Wafa Haidar Al-Shihabi | Director / Independent | Master Degree in Mechanical Engineering | 4 August 2016 |
| Christy Kulathooran | Secretary of the Board | Master degree in Financial Administration | 28 Sept 2016 |

Meetings of Company's Board of Directors during 2017

In accordance with Company's Articles of Association, the meetings of the Board of Directors must not be less than six meetings annually to be held as per an invitation from the Chairman. 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 along with the agenda at least 3 working days prior to the meeting accompanied with necessary documents that enable them to peruse all issues that will be discussed and decided. In 2017, Company's Board convened 6 meetings and following is the table indicating attendance of the directors in the board meetings:

| Director's name | Meeting no.1 held on 14/2/2017 | Meeting no.2 held on 25/4/2017 | Meeting no.3 held on 23/8/2017 | Meeting no.4 held on 16/10/2017 | Meeting no.5 held on 22/11/2017 | Meeting no.6 held on 21/12/2017 | Number of meetings |
|-----------------------|--------------------------------|--------------------------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|--------------------|
| Ahmed Zulficar | √ | √ | √ | √ | X | √ | 5 |
| Hisham Zaghloul | √ | √ | X | √ | √ | √ | 5 |
| Adel Fahad AlHumaidhi | √ | √ | √ | √ | √ | √ | 6 |
| Rajeev Gogia | √ | X | X | √ | √ | √ | 4 |
| Basel AlZaid | √ | √ | √ | √ | √ | √ | 6 |
| Wafa AlShihabi | √ | X | √ | √ | √ | √ | 5 |
| Michael Essex | √ | √ | √ | √ | √ | X | 5 |

Secretary of the Board of Directors

The Board of Directors have appointed Mr. Christy Kulathooran as Secretary of the Board.

Mr. Christy has joined KMEFIC in 1993 and is currently the General Manager of the Finance & Admin Department and acting Head of Human Resources Department. Mr. Christy has more than 31 years of experiences in the field of accounting and financial administration. He was employed by Burgan Bank (Kuwait) and Federal Bank (India). He obtained Master Degree in financial administration from Mumbai University, India and is currently a member of various Committees at KMEFIC.

He has been appointed a secretary of the Board of Directors during the meeting of the board dated 26 May 2013 and re-appointed on 28 September 2016.

A summary of how to apply the requirements of registration and coordination and save the minutes of meetings of the Board of Directors of the company.

The Secretary shall assist the members of the Board fully and continuously to ensure that they receive any information required in accordance with the decision of the Board of Directors or in consultation with the Chairman of the Board and shall assist the Chairman of the Board in all matters related to preparing the agenda of Board meetings and issuing invitations to Board members. The Secretary shall record all decisions and discussions of members of the Board of Directors, record the results of voting in the meetings, preservation of related documents and the holding the register of meetings of the Board.

Second Rule : Sound Assignment 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, including but not limited to;

- Approving the strategic objectives and key business plans and policies of the company.
- Approving annual budgets and interim and annual financial statements
- Supervising capital expenses of the company, acquisition and disposal of assets.
- To ensure the company is observing the policies and procedures in compliance with the applicable bylaws and regulations.
- To ensure the accuracy and validity of the statements and information to be disclosed in accordance with applicable disclosure and transparency policies and procedures.

Further the Board has also prepared and approved functional descriptions, which clearly define the functions and responsibilities of each Board member.

The Board adopted the Terms of Reference, which clarified the powers of the Board of Directors, the Executive Management and the Committees.

Achievement of the Board of Director during the year

Achievements that attain aspirations of our customers and shareholders

Based on the Board's responsibilities to achieve the best financial and operational results and complete the strategic plan of the company to the fullest, the Board during current year attained many goals, including but not limited to:

1. Laying out the financial objectives, strategy, plan and policies of the company.
2. Monitor the implementation of the annual strategies , business plans and the budget and verify the shortcomings, if any, which enabled the Board of Directors to achieve the cost reduction detailed in the message of the Chairman.
3. Follow-up with the Executive Management to ensure the effectiveness of internal control systems that protect the company's assets, ensure the integrity and accuracy of financial statements, company records, and comply with relevant rules, regulations and instructions.
4. The Board of Directors has taken all measures to ensure compliance with corporate governance rules in accordance with the Executive Regulations of the Capital Markets Authority
5. Based on the directions of the Board of Directors, the company has achieved in one of the top places among all financial services companies in Kuwait measured in terms of time, speed, accuracy, efficiency and follow-up in submission of Corporate Governance reports of the Capital Market Authority according to the press release issued by the Authority on August 14, 2017.
6. Developed key performance indicators for Board members and Executive Management.

Committees of the Board of Directors

Effective committees that assist the Board of Directors and the protect right of the stakeholders

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 at the Board level include the Executive Committee, Risk Committee, Auditing and Compliance Committee, Nomination and Remuneration Committee. The details of the committees are listed below:

1- Name of Committee : Board Audit and Compliance Committee

The committee was established in 2011

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

| Members of the committee | Name | Role | Director's Classification |
|--------------------------|-------------------|----------|---------------------------|
| | Mr. Michael Essex | Chairman | Non-Executive |
| | Mr. Rajeev Gogia | Member | Non-Executive |
| | Mr. Basil Al Zaid | 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 issues and understand its impact on the financial statements
- To evaluate the efficiency and adequacy of the internal control systems and to implement all ways to implement the opinion and recommendations of the committee in this regard.
- To review the findings of the internal audit report and the supervisory authorities.
- To follow up external auditing works .

Meetings of the committee

In 2017 Auditing and compliance committee convened four meetings as follows:

| Meeting no. 1 dated 14/2/2017 | Meeting no. 2 dated 16/5/2017 | Meeting no. 3 dated 13/9/2017 | Meeting no. 4 dated 22/11/2017 |
|----------------------------------|----------------------------------|----------------------------------|-----------------------------------|
|----------------------------------|----------------------------------|----------------------------------|-----------------------------------|

Attendance during the meetings was as follows

| First Meeting | | | Second Meeting | | | Third Meeting | | | Forth Meeting | | |
|---------------|------------------------|----------------------|----------------|------------------------|----------------------|---------------|------------------------|----------------------|---------------|------------------------|----------------------|
| Chairman | Director Non Executive | Director Independent | Chairman | Director Non executive | Director Independent | Chairman | Director Non executive | Director Independent | Chairman | Director Non executive | Director Independent |
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | X | ✓ | ✓ | ✓ | ✓ |

Achievements of the committee:

The committee's achievements, include:

1. Prepare MIS reports and establish internal control procedures to monitor company's activities.
2. To provide constructive recommendations thereby limit the issues or factors that may represent any risks to the company.
3. Develop mechanisms with the stakeholders to ensure the rapid closure of any observations or issues produced by internal and external audit reports.
4. Follow compliance reports and ensure that the company complies with all laws.
5. To conduct risk based audits as per the standards set by Institute of Internal Audit (IIA).
6. Review and recommend Internal Audit Policies and Procedures.
7. Closed all open high risk audit items and fixed all internal control weaknesses across the organization.

2- Name of the committee: Board Nominations and Remuneration committee

| Committee | Date of Formation | Term of Committee | Number of members |
|--|-------------------|-------------------|-------------------|
| Board Nominations and Remuneration committee | 22/8/2016 | Indefinite | 3 |

| Members of the committee | Name | Role | Director's Classification |
|--------------------------|---------------------|----------|---------------------------|
| | Mr. Michael Essex | Chairman | Non Executive |
| | Mr. Basel Al Zaid | Member | Independent |
| | Mr. Hisham Zaghloul | Member | Non Executive |

The committee undertakes several duties including:

- Recommendation of accepting nominations and recommendations 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.
- Annual review of the performance of Board of Directors and Executive Management.

Meetings of the committee

In 2017 Nominations and Remunerations committee convened one meeting as follows:

Meeting no. 1 dated 14/02/2017

Attendance during the meeting was as follows:

| First Meeting | | |
|---------------|----------|----------|
| Chairman | Director | Director |
| ✓ | ✓ | ✓ |

Achievements of the committee:

The committee's achievements includes:

1. Approval of the indemnity changes and evaluation of the salaries of the employees, Bonus plan, hierarchy policy, and employee related regulations.
2. The committee has also established and evaluated the key performance indicators of the employees and directors.

3- Name of the committee: Board Executive committee

The committee was established in 1994

| Committee | Date of Formation | Term of Committe | Number of members |
|---------------------------|-------------------|------------------|-------------------|
| Board Executive Committee | 22/8/2016 | Indefinite | 3 |

| Members of the committee | Name | Role | Director's Classification |
|--------------------------|----------------------|----------|---------------------------|
| | Mr. Ahmed Zulficar | Chairman | Non Executive |
| | Mr. Adel Al Humaidhi | Member | Director and CEO |
| | Mr. Hisham Zaghloul | Member | Non Executive |

The committee undertakes several duties including:

- Recommending and approving the policies and resolution related to business procedures in the company submitted by different divisions.
- Reviewing proposals concerning nomination of different service providers.
- Discussing investment offers and approving or rejecting the same.
- Discussing the company budget plan to ensure the company goals and follow up the company performance.
- Present recommendations to the Board for corporate social responsibility.

Meetings of the committee

Attendance during the meeting was as follows

In 2017 Executive Committee convened one meeting as follows:

Meeting no. 1 dated 13/04/2017

| First Meeting | | |
|---------------|----------|----------|
| Chairman | Director | Director |
| X | ✓ | ✓ |

Achievements of the committee:

The committees achievements includes:

- 1- Discussing budget plan and follow up with Executive Management for achieving the objectives as per the plan by reviewing the company's performance
- 2- Recommending appointment of experts and consultant to conduct studies.
3. Submitted recommendation to the Board of Directors concerning strategies and social responsibilities of the company.
4. Study all matters related to company investments and businesses.

4- Name of the committee: Board Risk Management Committee

The committee was established in 2001

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

| Members of the committee | Name | Role | Director's Classification |
|--------------------------|----------------------|----------|---------------------------|
| | Mr. Wafaa Al Shihabi | Chairman | Independent |
| | Mr. Hisham Zaghloul | Member | Non Executive |
| | Mr. Rajeev Gogia | Member | Non Executive |

The committee undertakes several duties including:

- Prepare and review risk management and risk strategies and policies before they are approved by the Board of Directors, ensure that these strategies and policies are implemented and that they are commensurate with the nature and size of the company's activities.
- Ensure adequate resources and systems for risk management.
- Ensure that risk management personnel have a full understanding of the risks surrounding the company and work to increase employees' and awareness of risk and risk culture.

Meetings of the committee

In 2017 the committee convened four meetings as follows:

| | | | |
|----------------------------------|----------------------------------|----------------------------------|-----------------------------------|
| Meeting no. 1 dated 22/3/2017 | Meeting no. 2 dated 13/6/2017 | Meeting no. 3 dated 27/9/2017 | Meeting no. 4 dated 14/12/2017 |
|----------------------------------|----------------------------------|----------------------------------|-----------------------------------|

Attendance during the meeting was as follows

| First Meeting | | | Second Meeting | | | Third Meeting | | | Fourth Meeting | | |
|---------------|----------|----------|----------------|----------|----------|---------------|----------|----------|----------------|----------|----------|
| Chairman | Director | Director | Chairman | Director | Director | Chairman | Director | Director | Chairman | Director | Director |
| ✓ | x | ✓ | ✓ | ✓ | ✓ | ✓ | x | ✓ | ✓ | ✓ | ✓ |

Achievements of the committee:

The committee achieved several achievements including:

1. Prepare and follow up risk management strategies and policies and evaluate systems and mechanisms for identifying and measuring different types of risks.
2. It also helped the Board identify and assess key risks, set risk appetite to the Company and ensure that the Company manages the risks efficiently and effectively. BRC oversees IT Risk including cyber attacks.
3. Identified Key Risk Indicators and established Risk Mitigation plan, Risk Management register.
4. Prepare and complete IT Security Policy and Procedure and conduct IT security awareness training to all employees.

A summary of how to apply the requirements that allow Board Members to obtain accurate and timely information and data.

The Board of Directors of the Company has adopted a procedure manual to ensure that members of the Board of Directors obtain information in a timely and accurate manner in accordance with the relevant laws and regulations. The manual defines the mechanism for requesting and presenting information to the Board of Directors and the procedures and obligations of Board Members to maintain the confidentiality of the information that they have received by virtue of their work.

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 a professional and qualified team of Executive Management members.

Mr. Adel Al Humaidhi

Chief Executive Officer

He has varied experience of more than 29 years in financial and investment fields as well as IPO in the local and international markets. Mr. Adel joined KMEFIC in 1997 at Asset Management Department. He obtained Bachelor degree in Business Administration from Concordia University, USA and was a Director at Kuwait Industrial Bank, Middle East Financial Investment Company (KSA). He is the Chairman of Middle East Financial Brokerage Company and has been elected as a Director at KMEFIC current board from 2016.

Ms. Buthaina Al-Ahmad

Executive Director – Customer Service

Ms. Buthaina Al-Ahmad joined KMEFIC in 1995 and holds currently the position on the Executive Director of Customer Services. She has wide experience over 25 years in investment, assets management and customer services. She worked in Kuwait Petroleum Corporation before KMEFIC. She obtained Bachelor degree in accounting from Kuwait University and MBA degree in Business Administration from Maastricht University. Further, she holds several professional certificates in accounting, compliance and auditing. She is currently the Chairman of Al-Awsat Holding Company, as well as the membership of several professional bodies

Mr. Mohamed Al-Saleh

General Manager – Treasury Group

Mr. Mohammad Al-Saleh joined KMEFIC in 2004 and is currently the General Manager of the Treasury Group. He has wide experience over 21 years in the field of treasury and financial market. Before he joined KMEFIC, he has worked with Al Ahlia Insurance Co., the Bank of Kuwait and the Middle East (Kuwait) and Al Ahli Bank of Kuwait. He obtained Bachelor Degree in accounting from Kuwait University. Also, he was a Board Member in Kuwaiti Society for Financial market for three consecutive sessions and currently a Board Member in Gulf Real Estate Projects Co. Further he is a member of many professional bodies.

Mr. Tamer El Essawy

General Manager - Compliance and Anti money laundering Division

Mr. Tamer El Essawy joined KMEFEC in January 2008 and is currently the General Manager - Compliance and Anti Money Laundering Division, Head of the Complaints Unit, FATCA & CRS and Corporate Governance Officer. Mr. Tamer has over 23 years of experience in banking, banking, accounting, investment, customer service and custodian services. He has previously worked at Gulf Bank (Kuwait), Citibank (Egypt), American Express Bank (Egypt), Managing Director of Egypt and the Middle East Financial Brokerage (Egypt), Member of the Board of Directors of several financial and investment companies and funds. He holds a BA in Accounting from the University of Tanta - Egypt, and also holds several certificates of management, business administration and operations and is a member of many associations and financial institutions. He is also Board member of International Project Management Co. – Egypt and member of liquidation committee of several investment funds.

Mr. Ahmed Abdulwahab Al Fahad

Senior Director, Asset Management Group

Mr. Ahmed joined KMEFIC in 2012. Before being employed by KMEFIC Mr. Ahmed was employed by KAMCO Investment Company. He is currently the head of asset management division and has 21 years experience in the Investment field as well as mutual funds management. He obtained Bachelor Degree, in accounting from Kuwait University.

Mr. Christy Kulathooran

General Manager - Finance & Administrative Affairs

Mr. Christy has joined KMEFIC in 1993 and is currently the General Manager of the Finance & Admin Department and acting Head of Human Resources Department. He has more than 31 years' experience in the field of accounting and financial administration. Prior to joining KMEFIC he was employed with Burgan Bank (Kuwait) and Federal Bank (India). He obtained Master Degree in financial administration from Mumbai University, India and is currently a member of various Committees at KMEFIC and Secretary of the Board of Directors.

Mr. Raj S Dhanasekharan

Head of Risk Management Division

Mr. Raj has joined KMEFIC in 2017 and is currently Head of Risk Management and IT Risk Division of the company. Further he has 30 years of experience in the banking field within GCC states and he has been employed in several banks, such as Bank of Bahrain and Kuwait, Qatar National Bank, Doha Bank, The Commercial Bank of Kuwait, Al Rajhi Bank and Warba Bank. He has obtained Master Degree in Business Administration and a certified associate of Indian Institute of Banking & Finance.

- Executive Management functions include, but are not limited to:

- To implement all internal policies, bylaws and regulations of the company approved by the Board of Directors.
- To implement the strategy and annual plan approved by the Board of Directors.
- Prepare periodic reports (financial and non-financial) on the progress of the company's activity in light of the company's strategic plans and objectives and present them to the Board of Directors.
- Manage daily business and activities.
- Participate actively in building and developing a culture of ethical values within the company.
- Develop internal control and risk management systems, ensure the effectiveness and adequacy of such systems and ensure compliance with risk appetite adopted by the Board of Directors.

The company has job descriptions that define the functions and responsibilities of each job clearly, and the company has company approved policy of delegation of powers for all divisions within the company.

Third Rule : Selecting efficient persons for Directorship and Executive Management

Nominations and Remuneration committee

The nomination mechanism ensures attracting competent candidates to join the board of directors and Executive Management and the awarding mechanism has been identified to help achieve the company's strategy.

The Board of Directors formed the Nomination and Remuneration Committee in accordance with the rules of corporate governance as stipulated in Article 4.1 of the Corporate Governance Law. The Committee is also formed with an independent member. The Board of Directors adopted the charter of the Committee which includes the duties and responsibilities of the Committee. The committee is concerned with the following duties:

- Recommend nomination and re-nomination members of the Board and Executive Management
- Setting a clear policy for the remuneration of members of the Board of Directors and Executive Management
- Identify the required skills for Board membership and review those requirements on an annual basis.
- To attract applications from those wishing to hold executive positions as needed and to study and review such applications.
- Defining the various segments of the bonuses to be awarded to employees, such as the fixed bonus, the performance bonus, the bonus in the form of shares and the end of service indemnity benefits.
- Prepare a functional description for executive members, non-executive members and independent members
- To propose the nomination and re-nomination of Board Members for elections by the General Assembly and to ensure not curtailing the independence of independent Board Members.
- Determining mechanisms for evaluating the performance of the Board as a whole and the performance of each member of the Board and Executive Management.
- Determine the indicators of measuring the performance of the Board and review these indicators on an annual basis
- Review and propose training programs and workshops for members of the Board of Directors.
- Review the salary scale and grades periodically
- Supervising the procedures for nomination of members during the General Assembly.
- Ensure that bonuses are awarded in accordance with the approved reward policy
- Prepare a detailed annual report on all the remuneration granted to the members of the Board of Directors and the Executive Management, whether amounts, benefits or privileges, whatever their nature or name, provided that this report is presented to the General Assembly for approval.

Report of the bonus granted to directors and members of the Executive Management

The company is committed to the highest standards of transparency as stipulated by the leading practices and corporate governance rules

The Company has committed to prepare a detailed report on all bonuses awarded to members of the Board and Executive Management and submitted to General Assembly meeting.

Detailed statement of Director's bonus and remunerations

| SL | Member | Post in board | Allowances | Bonus | BOD fees | Total |
|-------|---------------------|----------------------|------------|-------|----------|--------|
| 1 | Ahmad Zulficar | Chairman | Nil | Nil | Nil | Nil |
| 2 | Hisham Zaghloul | Vice Chairman | Nil | Nil | Nil | Nil |
| 3 | Adel Al Humaidhi | Director & CEO | Nil | Nil | Nil | Nil |
| 4 | Rajeev Gogia | Director | Nil | Nil | Nil | Nil |
| 5 | Michael Essex | Director | Nil | Nil | Nil | Nil |
| 6 | Wafa Al Shihabi | Independent Director | Nil | Nil | 9,000 | 9,000 |
| 7 | Basil Al Zaid | Independent Director | Nil | Nil | 9,000 | 9,000 |
| 8 | Christy Kulathooran | Secretary | Nil | Nil | Nil | Nil |
| Total | 8 | | Nil | Nil | 18,000 | 18,000 |

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 undertaking of the validity and integrity of the financial reports already prepared.

The Board of Directors constituted Audit and Compliance Committee in accordance with the provisions of article 4-6 of corporate governance manual. The formation, objectives, functions and responsibilities of the committee have been herein above mentioned.

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:

- Recommending to the Board of Directors the appointment and reappointment of the external auditor, proposing a change, proposing fees and reviewing letter of appointment, provided that it is one of the auditors registered in the register with the Capital Market Authority.
- To verify the independence of the external auditor on a regular basis before their appointment or reappointment, and to verify that the external auditor does not perform any additional tasks that do not fall within the duties of the external auditor prior to his appointment and may affect his independence as stipulated by the auditing profession.

In the event of a conflict between the recommendations of the Audit Committee and the decisions of the Board of Directors, a statement shall be included detailing and clarifying the recommendations and the reason(s) behind the decision of the Board of Directors not to comply with the same.

Fifth Rule : Laying out sound system for 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 internal control systems that are adequate and appropriate for company's business and the nature of its activities.

The Risk Manager enjoy independence as he reports directly to the Board of Directors.

The Board of Directors has created Risk Committee in accordance with rules provided 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 tools is the process of following up performance, control, auditing and risk management via applying double control principle to make sure of the following.
 - Sound assignment of duties and responsibilities and complete separation of duties to avoid conflict of interests.
 - The company has internal 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 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. In this regard the Board of Directors is interested to activate the role of the department on a continuous basis.

Internal Audit Division

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

- Controlling and reviewing the internal controls of different department of the company to ensure sound applicability of the company's internal control 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 BOD 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 team and all staff believe that professional and ethical conduct is one of the most important 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 inside and outside the company, by Board of Directors, Management team and staff. Further the policy provides that the responsibility of reporting any misconduct that may be observed or unsafe action is the responsibility of all parties without exemption. Further the policy describes other essential aspects , such as the relationship with stake holders, the validity of Financial Statement, information security, health, safety and environment. Further all members of the Board of Directors and Management team and staff must observe the rules of professional conduct and ethical values in all their duties regardless place and circumstances of job center.

Summary of Policies and approaches to limit 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 commitment to the integrity and ethical values in dealing with the related party. The policy describes the basis of dealing, and tackling cases of conflict of interests, by the Board of Directors, Executive Management, Compliance and Internal Audit Department, Risk Management Division and company's general assembly. Further the policy explored the procedures of tackling cases of conflict of interests and disclosure mechanism.

Seventh Rule : Disclosure and transparency in an accurate and timely manner

Disclosure and Transparency

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

The company is characterized 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 it explains general policies of disclosure and the rules and procedure of disclosure and mechanism of disclosure. The policy also explains matrix of disclosures of the company. Company's disclosure are published in its website. The objective of this policy is to layout general guidelines for 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 for supervisory entities.

Application of the disclosure requirements of the members of the Board of Directors and Executive Management

The company prepared special register for the disclosures of the Board Directors, members of the Executive Management and the insiders.

The company applies the rules of disclosure of interest, disclosure of substantial information and the disclosure of the insiders.

Summary of applying the requirement of formation of the Investors Relations unit

- The company has created investor relations unit and 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 on 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 pace with governance and disclosure policies. In this regard the company publishes all disclosures on the website to enable all interested parties to peruse the same.
- The company also relies on the electronic system to determine the rates of interest changes and its effects.

Eighth Rule : 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 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, accountability and effective management via adopting and following up execution of strategies, objectives and policies that is designed to commit itself to its regulatory and moral responsibilities.

It is worth mentioning that we activated and reinforced channels of contact with investors and financial analysts as the shares of the company are traded in Kuwait Stock Exchange. 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. The company is keen on opening contacts with local and foreign investor and financial analysts 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. The website provides set of information concerning the company, financial statements and reports related to company's performance. Also, the company has an approved set of policies for protecting shareholder's rights.

Overview of the establishment of a special register maintained by the clearing agency, as part of the requirements for continuous follow-up of shareholders details

- Special register concerning shares and shareholders is maintained with Kuwait clearing company in accordance with governance rules.
- Investor relations in-charge keeps and maintains updated copy of shareholders register.
- The register is available to all shareholders for perusal from time to time 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 which invites and encourages shareholders to effectively participate and attend the meetings of company's general assemblies.
- The company invites shareholders for the general assembly meeting in accordance with laws and regulations. Further it enables the shareholders who have at least 10% of company's capital to call for a general assembly meeting 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 proxy to attend general assembly meeting as per special power of attorney or authorization to be prepared by the company.
- Before convening 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 and financial statements.

Overview of the systems and policies that guarantee protection and acknowledgement of the rights of stakeholders.

The company is endeavoring to respect and protect the rights of the stakeholders in all its internal and external dealings and transactions as the contributions of the stakeholders 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 stakeholders may have any privilege from his contracts and transactions that fall within the original 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 policies, including but not limited to:

- Policy to protect the rights of stakeholders.
- Conflict of interest policy.
- Reporting policy.
- Transactions with related parties.

Overview of how to encourage stakeholders to participate in the follow-up of the company's various activities

- The company gives the opportunity to the stakeholders to obtain the information and statements related to their business through investor relations unit, customer service department, complaints unit, company's website, continuous disclosures and developing performance methods and stakeholders related services.
- The Company has set appropriate policies to enable stakeholders to report to the Board of Directors any improper practices they are exposed to by the Company, while providing appropriate protection to the reporting parties

Tenth Rule : Enhance and improve performance

Improving Performance

Summary of the measures of implementation of the requirements for the development of mechanisms that allow for continuous access to training programs and courses by members of the Board of Directors and Executive Management.

- The company has developed and prepared a plan to hold courses and training programs for the members of the Board of Directors and the Executive Management to ensure that they have a full understanding of the company's operations and operations activities as well as the obligations imposed on them.
- The financial and operational aspects of the company's activities, the legal and supervisory obligations imposed on them, the duties and powers, the company's strategies, the role of the committees emanating from the board of directors, informing them and training them on all laws and decisions and updates of the company's activities and regulatory bodies.

Summary on how to evaluate the performance of the Board of Directors, each director and members 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 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 with company's interests.

Summary of the efforts of the Board of Directors to create values for the company (value creation) among company's staff via realizing the strategic objectives and KPIs.

- 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 KPIs.
- 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 : Focus on the importance of social responsibility

Social responsibility:

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

- The company has created corporate social responsibility (CSR) 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.

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 responsibility 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 responsibility objectives carried out by the company on continuous basis in order to promote company's social values.
- The company involves the staff in the performance of social responsibility programs and contribution in different social activities carried out by the company.

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C O N T E N T S

- 27 - Independent Auditors' Report
- 32 - Consolidated Statement of Financial Position
- 33 - Consolidated Statement of Profit or Loss
- 34 - Consolidated Statement of Profit or Loss and Other Comprehensive Income
- 35 - Consolidated Statement of Changes in Equity
- 36 - Consolidated Statement of Cash Flows
- 37 - Notes to the Consolidated Financial Statements



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AUDITORS REPORT

Auditors' Report

Independent Auditors' Report To The Shareholders Of
Kuwait And Middle East Financial Investment Company K.S.C.P.

Deloitte

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 2017, 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 statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (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 represents a brokerage license acquired from Boursa Kuwait. This license has an indefinite useful life. As required by the applicable accounting standards, management conducts an annual impairment test to assess the recoverability of the carrying value of the cash generating unit to which this brokerage license relates. The assessment of the recoverable amount of the intangible asset under the value-in-use basis is complex and requires considerable judgment on the part of management. As disclosed in note 8, there are number of key sensitive judgments made in determining the inputs into a 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 a key audit matter.

We tested the key assumptions made by management that includes the cash flow projections and the discount rate. We also performed a 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 8 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 8 to the consolidated financial statements.

b) Fair value and impairment of investments available for sale

The fair value of investments available for sale categorised in level 1, 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 techniques 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 the significance of investments available for sale in level 3 and the 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 to the consolidated financial statements.

For level 3 investments, we tested the appropriateness of the models or the basis and technique used by the Group and the reliability of the data that was used as input to these models. We compared the models or the basis or techniques used for the valuations with prior years and determined that they are consistently applied by the Group. Furthermore, we also assessed the judgement exercised in determining whether an investment available for sale is impaired based on the significance or length of their deterioration in value. The related disclosures are in note 5 and note 26 to the consolidated financial statements.

Other information included in the Group's 2017 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2017 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.

Auditors' Report

Independent Auditors' Report To The Shareholders Of
Kuwait And Middle East Financial Investment Company K.S.C.P. (Continued)

Deloitte

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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- 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.

Auditors' Report

Independent Auditors' Report To The Shareholders Of
Kuwait And Middle East Financial Investment Company K.S.C.P. (Continued)

Deloitte

- 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, as amended, and its executive regulations, as amended, and by the Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Company's Memorandum of Incorporation and Articles of Association have occurred during the financial year ended 31 December 2017 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 2017, that might have had a material effect on the business of the Company or on its financial position.



Bader A. Al-Wazzan
Licence no. 62A
Deloitte & Touche
Al-Wazzan & Co.

Kuwait
14 February 2018

Consolidated Statement of Financial Position As at 31 December 2017

| | Note | Kuwaiti Dinars | |
|---|------|-------------------|-------------------|
| | | 2017 | 2016 |
| ASSETS | | | |
| Cash and cash equivalents | 3 | 4,890,190 | 3,009,465 |
| Term deposits | 4 | 55,000 | 55,825 |
| Investments | 5 | 7,585,333 | 8,117,577 |
| Loans and advances | 6 | 5,730 | 1,010,406 |
| Other assets | 7 | 845,591 | 1,892,157 |
| Intangible asset | 8 | 8,600,000 | 8,600,000 |
| Equipment | 9 | 510,778 | 623,688 |
| TOTAL ASSETS | | 22,492,622 | 23,309,118 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Loan from bank | 10 | 3,063,162 | 3,223,840 |
| Accounts payable and other liabilities | 11 | 2,981,460 | 3,195,657 |
| TOTAL LIABILITIES | | 6,044,622 | 6,419,497 |
| EQUITY | | | |
| Share capital | 12 | 26,381,499 | 26,381,499 |
| Accumulated losses | | (13,321,674) | (12,734,184) |
| Other reserves | 13 | 2,900,991 | 2,828,134 |
| Treasury shares | 14 | (1,174,880) | (1,174,880) |
| Equity attributable to shareholders of the Company | | 14,785,936 | 15,300,569 |
| Non-controlling interest | 15 | 1,662,064 | 1,589,052 |
| TOTAL EQUITY | | 16,448,000 | 16,889,621 |
| TOTAL LIABILITIES AND EQUITY | | 22,492,622 | 23,309,118 |



Ahmed Zulficar
Chairman



Adel Fahed Al Humaidhi
CEO

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss
For the year ended 31 December 2017

| | Note | Kuwaiti Dinars | |
|--|---------|------------------|--------------------|
| | | 2017 | 2016 |
| Income | | | |
| Management fees | 23 | 1,617,535 | 1,600,914 |
| Interest income | 16 | 57,229 | 56,099 |
| Commission income | | 1,112,212 | 823,582 |
| Gain from sale of investment in associate | 17 & 21 | - | 323,478 |
| Gain on investments | | 176,304 | 190,728 |
| Dividend income | | 99,034 | 143,260 |
| Share of results from an associate | | - | (36,427) |
| Foreign exchange gain | | 2,065 | 67,243 |
| Other income | 18 | 135,480 | 8,921 |
| Total income | | 3,199,859 | 3,177,798 |
| Expenses | | | |
| Staff expenses | | 1,687,772 | 1,731,759 |
| Other operating expenses | | 838,453 | 812,100 |
| Depreciation | 9 | 160,981 | 152,451 |
| Interest expense | 21 | 104,998 | 170,065 |
| Total expenses | | 2,792,204 | 2,866,375 |
| Profit before provisions and taxation | | 407,655 | 311,423 |
| Provisions and impairment losses | 19 | (945,375) | (5,665,847) |
| Loss for the year before Directors fees and taxes | | (537,720) | (5,354,424) |
| Director's fees | | (18,000) | - |
| LOSS FOR THE YEAR | | (555,720) | (5,354,424) |
| Attributable to: | | | |
| Shareholders of the Company | | (587,490) | (5,191,747) |
| Non-controlling interest | | 31,770 | (162,677) |
| | | (555,720) | (5,354,424) |
| BASIC AND DILUTED LOSS PER SHARE (FILS) | 20 | (2.2) | (19.9) |

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income For the year ended 31 December 2017

| | Note | Kuwaiti Dinars | |
|---|------|----------------|-------------|
| | | 2017 | 2016 |
| Loss for the year | | (555,720) | (5,354,424) |
| Other comprehensive income | | | |
| Items that are or may be subsequently reclassified to consolidated profit or loss: | | | |
| <i>Changes in fair value of investments available for sale</i> | | 240,773 | 111,544 |
| Net realised gain transferred to consolidated statement of profit or loss on sale of investments available for sale | | (161,966) | (42,935) |
| Impairment loss on investments available for sale transferred to consolidated statement of profit or loss | 19 | 5,435 | 1,097,367 |
| Net realised gain transferred to consolidated statement of profit or loss on disposal of foreign operations | | - | (304,426) |
| Other comprehensive income for the year | | 84,242 | 861,550 |
| Total comprehensive income for the year | | (471,478) | (4,492,874) |
| Attributable to | | | |
| Shareholders of the Company | | (514,633) | (4,340,151) |
| Non-controlling interest | | 43,155 | (152,723) |
| | | (471,478) | (4,492,874) |

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flow For the year ended 31 December 2017

| | Note | Kuwaiti Dinars | |
|--|----------|------------------|---------------------|
| | | 2017 | 2016 |
| Operating activities | | | |
| Loss for the year | | (555,720) | (5,354,424) |
| Adjustments for: | | | |
| Interest income | 16 | (57,229) | (56,099) |
| Gain from sale of investment in an associate | 21 | - | (323,478) |
| Gain on disposal of investments available for sale | | (161,966) | (42,935) |
| Dividend income | | (99,034) | (143,260) |
| Share of results from an associate | | - | 36,427 |
| Other income | 18 | (133,984) | - |
| Depreciation | 9 | 160,981 | 152,451 |
| Interest expense | 21 | 104,998 | 170,065 |
| Gain on disposals of equipment | | - | (232) |
| Provision and impairment losses | 19 | 945,375 | 5,665,847 |
| Operating income before changes in operating assets and liabilities | | 203,421 | 104,362 |
| Increase in investments at fair value through statement of profit or loss | | (45,694) | (343,059) |
| Decrease in loans and advances | | 257,249 | 81,090 |
| Decrease/(increase) in other assets | | 717,898 | (476,872) |
| Decrease in accounts payable and other liabilities | | (171,029) | (320,793) |
| Interest income received | | 54,219 | 57,313 |
| Net cash flows from (used in) operating activities | | 1,016,064 | (897,959) |
| Investing activities | | | |
| Proceeds from maturity of term deposits | | 825 | - |
| Purchase of/application money paid for investments | | (109,686) | (14,967) |
| Proceeds from sale of investments available for sale | | 780,823 | 1,122,766 |
| Purchase of equipment - net | 9 | (48,071) | (82,371) |
| Dividend income received | | 97,383 | 143,260 |
| Proceeds from refund of broker guarantee fund | 18 | 383,984 | - |
| Proceeds from sale of an associate | 17 | - | 10,612,800 |
| Net cash flows from investing activities | | 1,105,258 | 11,781,488 |
| Financing activities | | | |
| Repayment of loan from bank | 10 | (160,678) | (10,529,084) |
| Ownership changes in subsidiary | 2.4 | 29,857 | (29,045) |
| Interest expense paid | | (109,776) | (205,987) |
| Net cash flows used in financing activities | | (240,597) | (10,764,116) |
| INCREASE IN CASH AND CASH EQUIVALENTS | | 1,880,725 | 119,413 |
| Cash and cash equivalent at beginning of the year | | 3,009,465 | 2,890,052 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 3 | 4,890,190 | 3,009,465 |

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

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 Bursa Kuwait. The Company is a subsidiary of Ahli United Bank K.S.C.P. (the "Parent Company"), which is listed on the Bursa Kuwait. 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 Bursa Kuwait.

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

The consolidated financial statements of the Group for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 14 February 2018. 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 fair value.

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

Notes to the Consolidated Financial Statements Year ended 31 December 2017

2- Significant accounting policies (Continued)

2.2 New standards and interpretations issued and effective

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year. Amendments to IFRS which are effective for annual accounting period starting from 1 January 2017 did not have any significant impact on the accounting policies, financial position or performance of the Group.

2.3 New standards and interpretations issued but not yet effective

The following IFRS have been issued but are not yet effective and have not been early adopted by the Group. The Group intends to adopt them when they become effective.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 impacts the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

The primary impact on the Group relates to the provisioning for future credit losses on its financial assets and the requirement of certain additional disclosures.

The Group will adopt IFRS 9 from the effective date of 1 January 2018, apply it retrospectively and recognize on that date any difference between the previous carrying amount and the carrying amount as at 1 January 2018 in opening retained earnings. The Group will not restate prior periods.

Based on currently available information, the Group does not expect the adoption and application of IFRS 9 will have a material impact on the Group. This is subject to changes as the Group is continuing to analyze that and will disclose the actual impact in its interim consolidated financial information as of 31 March 2018 that includes the effects of its application from the effective date. The Group will also abide by CBK regulations in this regard.

IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers', effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognizing revenue arising from contracts with customers and establishes a five-step model for that. Under IFRS 15, revenue will be recognized as goods and services are transferred, to the extent that the transferor anticipates entitlement to consideration in exchange for those goods and services. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Group will adopt IFRS 15 from the effective date of 1 January 2018 and apply the cumulative effect approach by retrospectively adjusting retained earnings on 1 January 2018. The Group will not restate prior periods.

Based on currently available information, the Group does not expect the adoption and application of IFRS 15 will have a material impact on the Group. This is subject to changes as the Group is continuing to analyze that and will disclose the actual impact in its interim consolidated financial information as of 31 March 2018 that includes the effects of its application from the effective date.

IFRS 16 'Leases'

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

IFRS 16 does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their consolidated statement of financial position as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the consolidated statement of profit or loss and other comprehensive income.

Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Group does not anticipate early adopting IFRS 16 and does not expect to have material impact on the Group.

Other new standards or amendments to existing standard are not expected to have a material impact on the consolidated financial statements of the Group.

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.

Notes to the Consolidated Financial Statements Year ended 31 December 2017

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 | |
|---|--------------------------|--------------------|-----------------------|-------|
| | | | 2017 | 2016 |
| Al Awsat First Holding Company K.S.C.C.* | Kuwait | Investment | 99.9% | 99.9% |
| Middle East Financial Brokerage Company K.S.C.C ('MEFBC') | Kuwait | Brokerage | 90.0% | 90.0% |
| Gulf Gate Fund ("the Fund") ** | Kuwait | Fund | 77.6% | 82.8% |

* Residual interest in the subsidiary is held through nominees.

** During the year, the Group's ownership in the Fund decreased by 5.2% (2016: increased by 1.1%) due to subscription in the Fund amounting to KD 29,857 (2016: redemption in the Fund amounting to KD 29,045).

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 profit or loss". 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.

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.

Loan from bank 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.

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.

Notes to the Consolidated Financial Statements Year ended 31 December 2017

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

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.

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.

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 Year ended 31 December 2017

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 recognized 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 recognized 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 recognized 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'.

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.

Notes to the Consolidated Financial Statements Year ended 31 December 2017

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.

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 Group'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

| | Kuwaiti Dinars | |
|-------------------------------|------------------|------------------|
| | 2017 | 2016 |
| Cash on hand | 1,750 | 1,600 |
| Short-term deposits with bank | 3,300,000 | 2,506,000 |
| Cash at banks | 1,588,440 | 501,865 |
| | <u>4,890,190</u> | <u>3,009,465</u> |

Certain balances included in cash at banks and short-term deposits are placed with the related parties (Note 21). The effective interest rate on short-term deposit as of 31 December 2017 was 1.48% (31 December 2016: 1.35%) per annum.

The cash and cash equivalents disclosed above and in the statement of cash flows include:

- a) Short-term deposits with bank of KD 2,619,000 (2016: KD 2,506,000) are under lien against the loan from bank (Note 10), and;
- b) Cash at bank of KD 287,228 (2016: KD Nil) is subject to restrictions, and is therefore not available for general use.

Notes to the Consolidated Financial Statements Year ended 31 December 2017

4 - TERM DEPOSITS

Term deposits are held with commercial bank in the region, for a period of one year, at interest rate of 1.25% (2016: 1.25%) per annum.

5 - INVESTMENTS

| | Kuwaiti Dinars | |
|--|------------------|------------------|
| | 2017 | 2016 |
| Investments at fair value through statement of profit or loss | | |
| Financial assets held for trading: | | |
| Quoted equity securities | 1,767,488 | 1,684,747 |
| Managed funds | 176,183 | 213,230 |
| | <u>1,943,671</u> | <u>1,897,977</u> |
| Investments available for sale | | |
| Quoted equity securities | 1,084,987 | 960,826 |
| Unquoted equity securities | 211,556 | 210,306 |
| Funds | 4,345,119 | 5,048,468 |
| | <u>5,641,662</u> | <u>6,219,600</u> |
| | <u>7,585,333</u> | <u>8,117,577</u> |

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 2017 was KD 2,795,935 (2016: KD 3,072,524). The Group has recorded unrealised gain of KD 26,695 (2016: unrealised loss of KD 22,068) in respect of the reclassified investments in fair valuation reserve within equity during the year. Had the Group not adopted the amendments to IAS 39, this unrealised gain would have been recorded in the consolidated statement of profit or loss.

Certain investments available for sale amounting to KD 3.4 million (2016: KD 3.7 million) are pledged as security against the loan (Note 10).

6 - LOANS AND ADVANCES

| | Kuwaiti Dinars | |
|--------------------------|--------------------|--------------------|
| | 2017 | 2016 |
| Loans to customers | 7,500,000 | 7,745,220 |
| Loans to staff | 5,788 | 17,817 |
| | <u>7,505,788</u> | <u>7,763,037</u> |
| Less: General provision | (58) | (2,631) |
| Less: Specific provision | <u>(7,500,000)</u> | <u>(6,750,000)</u> |
| | <u>5,730</u> | <u>1,010,406</u> |

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

| | Kuwaiti Dinars | |
|-----------------------|------------------|------------------|
| | 2017 | 2016 |
| At 1 January | 6,752,631 | 3,761,651 |
| Movement in provision | 747,427 | 2,990,980 |
| | <u>7,500,058</u> | <u>6,752,631</u> |

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 - OTHER ASSETS

| | Kuwaiti Dinars | |
|-------------------------------------|----------------|------------------|
| | 2017 | 2016 |
| Management fee receivable | 320,643 | 398,046 |
| Commission income receivable | 145,154 | 350,970 |
| Receivable from sale of investments | - | 454,435 |
| Application Money | 109,184 | - |
| Prepaid expenses | 158,634 | 137,990 |
| Broker deposit | - | 250,000 |
| Others | 111,976 | 300,716 |
| | <u>845,591</u> | <u>1,892,157</u> |

8 - INTANGIBLE ASSET

Intangible asset represents a brokerage license acquired from Bursa Kuwait for KD 12,500,000. This license has an indefinite useful life.

Impairment testing

The Group determines whether the brokerage license is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units (CGU) to which it has been allocated. The recoverable amount is determined based on the higher of the value-in-use calculations or fair value less selling cost. The value in use calculations use pre-tax cash flow projections over a five year period based on the historical pattern of trade volume, revenue growth, market share, a relevant terminal growth rate and discount rate. The terminal growth beyond the five year period has been determined by extrapolation 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 9.3% to 10% (2016: 9% to 10%) and terminal growth rate of 3% (2016: 2.5% to 3%) was 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. Based on the above analysis, there is no indication that the intangible asset is impaired. (2016: Impairment loss of KD 1,550,000).

Notes to the Consolidated Financial Statements Year ended 31 December 2017

9 - EQUIPMENT

| | Kuwaiti Dinars | | | | |
|---|-------------------------|------------------|------------------|--------------------------|------------------|
| | Furniture and equipment | Computers | Software | Capital work in progress | Total |
| Cost | | | | | |
| At 1 January 2017 | 1,563,016 | 1,290,076 | 1,992,510 | 32,701 | 4,878,303 |
| Additions/Transfers | 9,634 | 3,741 | 19,312 | 15,486 | 48,173 |
| Disposals | (6,001) | (5,254) | - | - | (11,255) |
| At 31 December 2017 | 1,566,649 | 1,288,563 | 2,011,822 | 48,187 | 4,915,221 |
| Accumulated depreciation | | | | | |
| At 1 January 2017 | 1,522,002 | 1,288,962 | 1,418,950 | 24,701 | 4,254,615 |
| Depreciation | 16,796 | 2,754 | 141,431 | - | 160,981 |
| Disposals | (5,920) | (5,235) | - | - | (11,153) |
| At 31 December 2017 | 1,532,878 | 1,286,481 | 1,560,381 | 24,701 | 4,404,443 |
| Net book value at 31 December 2017 | 33,771 | 2,082 | 451,441 | 23,486 | 510,778 |
| 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 |

10 - Loan from bank

Loan from bank represents secured loan from the Parent Company, secured by mortgaging assets of the Company comprising shares of investment in subsidiaries (Note 2.4), short-term deposits with the bank (Note 3), certain investments available for sale (Note 5), and loans and advances (Note 6).

The loan was carried at effective interest rate of 3.25% (2016: 3.25%) per annum.

During the year, loan of KD 160,678 (2016: KD 10,529,084) has been repaid.

11 - ACCOUNTS PAYABLE AND OTHER LIABILITIES

| | Kuwaiti Dinars | |
|--------------------------|------------------|------------------|
| | 2017 | 2016 |
| End of service indemnity | 1,245,242 | 1,160,464 |
| Other staff payables | 111,854 | 114,154 |
| Loan interest payable | 22,910 | 27,688 |
| Brokerage payables | 33,939 | 25,186 |
| Others | 1,567,515 | 1,868,165 |
| | <u>2,981,460</u> | <u>3,195,657</u> |

12 - SHARE CAPITAL

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

| | Kuwaiti Dinars | |
|---|-------------------|-------------------|
| | 2017 | 2016 |
| Authorised, issued and fully paid up: 263,814,991 (2016: 263,814,991) shares of 100 fils each paid in cash | <u>26,381,499</u> | <u>26,381,499</u> |

The issued and fully paid up share capital includes 15,837,638 shares amounting to KD 1,583,764 (2016: 15,837,638 shares amounting to KD 1,583,764) on account of share option plan for employees.

13 - 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.

Notes to the Consolidated Financial Statements Year ended 31 December 2017

14 - TREASURY SHARES

| | Kuwaiti Dinars | |
|---|----------------|-----------|
| | 2017 | 2016 |
| 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) | 57,717 | 60,341 |
| Weighted average market value per treasury share (fils) | 29.9 | 25.0 |

Treasury shares are not entitled to any cash dividends and are not pledged. Treasury shares reserve balance of KD 2,042,260 (2016: 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.

15 - 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 | | Profit (loss) allocated to non-controlling interest | | Accumulated non-controlling interest | |
|--------------------------|--|-------|---|-----------|--------------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| MEFBC | 10.0% | 10.0% | 30,494 | (193,502) | 1,200,616 | 1,158,737 |
| The Fund | 22.4% | 17.2% | 1,276 | 30,825 | 461,448 | 430,315 |
| Total | | | 31,770 | (162,677) | 1,662,064 | 1,589,052 |

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 intra-group eliminations.

| | Kuwaiti Dinars | | | |
|---|----------------|-----------------|----------------|------------------|
| | 2017 | | 2016 | |
| | MEFBC | The Fund | MEFBC | The Fund |
| Total assets | 12,413,212 | 2,068,690 | 12,057,833 | 2,507,660 |
| Total liabilities | 282,566 | 4,783 | 312,616 | 11,243 |
| Total income | 763,895 | 45,042 | 402,119 | 224,259 |
| Total expenses | (458,959) | (39,859) | (2,337,138) | (45,891) |
| Total profit (loss) for the year | 304,936 | 5,183 | (1,935,019) | 178,368 |
| Net increase/(decrease) in operating activities | 110,377 | 406,370 | (89,381) | (626,487) |
| Net increase in investing activities | 883,788 | - | 82,324 | - |
| Net decrease in financing activities | - | (437,692) | - | (29,045) |
| Net increase/(decrease) in cash and cash equivalents | 994,165 | (31,322) | (7,057) | (655,532) |

16 - INTEREST INCOME

| | Kuwaiti Dinars | |
|---------------------------------|----------------|---------------|
| | 2017 | 2016 |
| Term deposits and bank balances | 45,511 | 40,722 |
| Loans and advances | 11,718 | 15,377 |
| | <u>57,229</u> | <u>56,099</u> |

17 - GAIN ON SALE OF INVESTMENT IN ASSOCIATE

During the previous year, investment in associate was sold to the Parent Company for a total consideration of KD 10,612,800.

18 - OTHER INCOME

Other income includes gain of KD 133,984 (31 December 2016: Nil) on the refund of the Broker deposit of KD 250,000.

19 - PROVISIONS AND IMPAIRMENT LOSSES

| | Kuwaiti Dinars | |
|---|----------------|------------------|
| | 2017 | 2016 |
| Net provision on loans and advances and claims | 747,427 | 2,993,779 |
| Impairment loss on intangible asset (Note 8) | - | 1,550,000 |
| Impairment of other assets | 192,513 | - |
| Impairment loss on investments available for sale | 5,435 | 1,097,367 |
| Impairment loss on equipment (Note 9) | - | 24,701 |
| | <u>945,375</u> | <u>5,665,847</u> |

20 - 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:

| | Kuwaiti Dinars | |
|--|----------------|-------------|
| | 2017 | 2016 |
| Loss for the year attributable to the shareholders of the Company (KD) | (587,490) | (5,191,747) |
| Weighted average number of shares outstanding during the year | 261,191,491 | 261,191,491 |
| Basic and diluted loss per share (fls) | (2.2) | (19.9) |

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

| | Kuwaiti Dinars | |
|--|--------------------|--------------------|
| | 2017 | 2016 |
| Weighted average number of issued and paid up shares (Note 12) | 263,814,991 | 263,814,991 |
| Less: Weighted average number of treasury shares (Note 14) | (2,623,500) | (2,623,500) |
| Weighted average number of shares | <u>261,191,491</u> | <u>261,191,491</u> |

Notes to the Consolidated Financial Statements Year ended 31 December 2017

21 - 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:

| | Kuwaiti Dinars | |
|--|----------------|------------|
| | 2017 | 2016 |
| Related party balances | | |
| Bank balance with the Parent / Ultimate Parent Company (Note 3) | 4,749,409 | 2,872,697 |
| Investments in funds managed by the Company | 3,119,301 | 3,821,856 |
| Receivable from the Parent / Ultimate Parent Company | 12,066 | 20,398 |
| Receivable from other related parties | 161,069 | 343,679 |
| Advance salary to key management personnel | - | 15,000 |
| Loan from the Parent Company (Note 10) | 3,063,162 | 3,223,840 |
| Off balance sheet items | | |
| Guarantees taken from the Parent Company | 500 | 500 |
| Investments and funds managed in a fiduciary capacity for Parent/Ultimate Parent Company | 12,382,758 | 13,102,102 |
| Related party transactions | | |
| Management fees from the Parent / Ultimate Parent Company | 11,224 | 13,718 |
| Commission income from the Parent / Ultimate Parent Company | 61,811 | 63,919 |
| Interest income from the Parent / Ultimate Parent Company | 44,644 | 39,313 |
| Gain on sale of investment in associate to the Parent Company (Note 17) | - | 323,478 |
| Net gain on investments in funds managed by the Company | 129,655 | 30,491 |
| Interest expense on loan from the Parent Company | (104,998) | (170,065) |
| Key management compensation | | |
| Salaries and other benefits to key management personnel | (488,386) | (466,474) |

22 - COMMITMENTS AND CONTINGENT LIABILITIES

| | Kuwaiti Dinars | |
|---|----------------|---------|
| | 2017 | 2016 |
| Commitments | | |
| Uncalled capital contributions relating to investments available for sale | 48,197 | 48,934 |
| Contingent liabilities | | |
| Guarantees | 150,500 | 251,250 |

Guarantees issued by the Group noted above exclude a guarantee of KD 46.02 million (2016: KD 46.75 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.

23 - 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 2017, total fiduciary assets managed by the Company amounted to KD 349 million (2016: KD 450 million). Management fee of KD 1,617,535 (2016: KD 1,600,914) has been recognised by the Company for management of fiduciary assets.

24 - 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:

| | Kuwaiti Dinars | | | | | | | |
|--|------------------|------------------|-----------------|----------------|-------------------|-------------------|-------------------|-------------------|
| | Up to 3 months | | 3 to 12 months | | Over one year | | Total | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Assets | | | | | | | | |
| Cash and cash equivalents | 4,890,190 | 3,009,465 | - | - | - | - | 4,890,190 | 3,009,465 |
| Term deposits | 55,000 | 55,825 | - | - | - | - | 55,000 | 55,825 |
| Investments | 1,943,671 | 1,897,977 | - | - | 5,641,662 | 6,219,600 | 7,585,333 | 8,117,577 |
| Loans and advances | - | 750,000 | 5,730 | 260,406 | - | - | 5,730 | 1,010,406 |
| Other assets | 634,328 | 1,500,781 | 192,686 | 368,245 | 18,577 | 23,131 | 845,591 | 1,892,157 |
| Intangible assets | - | - | - | - | 8,600,000 | 8,600,000 | 8,600,000 | 8,600,000 |
| Equipment | - | - | - | - | 510,778 | 623,688 | 510,778 | 623,688 |
| | 7,523,189 | 7,214,048 | 198,416 | 628,651 | 14,771,017 | 15,466,419 | 22,492,622 | 23,309,118 |
| Liabilities | | | | | | | | |
| Loan from bank * | 3,063,162 | 3,223,840 | - | - | - | - | 3,063,162 | 3,223,840 |
| Accounts payable and other liabilities | 152,920 | 337,065 | 234,788 | 211,228 | 2,593,752 | 2,647,364 | 2,981,460 | 3,195,657 |
| | 3,216,082 | 3,560,905 | 234,788 | 211,228 | 2,593,752 | 2,647,364 | 6,044,622 | 6,419,497 |
| Net liquidity gap | 4,307,107 | 3,653,143 | (36,372) | 417,423 | 12,177,265 | 12,819,055 | 16,448,000 | 16,889,621 |

* It represents loan from the Parent Company and is renewed upon maturity.

Notes to the Consolidated Financial Statements Year ended 31 December 2017

25 - 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 Boursa Kuwait and commercial loans to the clients.
- **Investment and 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:

| | Kuwaiti Dinars | | | | |
|----------------------------------|------------------|------------------------------|-------------------|-------------------------|-------------|
| | Asset management | Brokerage and online trading | Credit operations | Investment and treasury | Total |
| 2017 | | | | | |
| Segment revenue | 1,663,036 | 1,255,403 | 5,971 | 275,449 | 3,199,859 |
| Segment operating expenses | (842,702) | (1,013,828) | (114,748) | (820,926) | (2,792,204) |
| Provisions and impairment losses | - | - | (939,940) | (23,435) | (963,375) |
| Segment results | 820,334 | 241,575 | (1,048,717) | (568,912) | (555,720) |
| Segment assets | 2,543,715 | 9,061,713 | 5,730 | 10,881,464 | 22,492,622 |
| Segment liabilities | (438,969) | (436,771) | (3,094,679) | (2,074,203) | (6,044,622) |
| 2016 | | | | | |
| Segment revenue | 1,825,853 | 823,582 | 15,377 | 512,986 | 3,177,798 |
| Segment 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 | 1,202,919 | 9,425,936 | 23,309,118 |
| Segment liabilities | (590,833) | (351,708) | (3,258,978) | (2,217,978) | (6,419,497) |

26 - FAIR VALUES OF FINANCIAL INSTRUMENTS

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

| | Kuwaiti Dinars | | | Total |
|--|----------------|-----------|-----------|-----------|
| | Level: 1 | Level: 2 | Level: 3 | |
| 2017 | | | | |
| Investments at fair value through profit or loss | | | | |
| Quoted equity securities and managed funds | 1,767,488 | 176,183 | - | 1,943,671 |
| Investments available for sale | | | | |
| Equity securities | 1,084,987 | - | 211,556 | 1,296,543 |
| Funds | 871,331 | 1,092,414 | 2,381,374 | 4,345,119 |
| | 1,956,318 | 1,092,414 | 2,592,930 | 5,641,662 |
| 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 |

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:

Notes to the Consolidated Financial Statements
Year ended 31 December 2017

| | Kuwaiti Dinars | |
|--|----------------|-----------|
| | 2017 | 2016 |
| At 1 January | 2,940,136 | 2,973,164 |
| Net realised gain recognized in statement of profit or loss and other comprehensive income | (116,370) | - |
| Cost of investments sold | (311,473) | - |
| Change in fair value | 80,637 | (33,028) |
| At 31 December | 2,592,930 | 2,940,136 |

27 - 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 2016.

27.1 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.

| | Kuwaiti Dinars | |
|---|----------------|-----------|
| | 2017 | 2016 |
| Cash at banks | 4,888,440 | 3,007,865 |
| Term deposits | 55,000 | 55,825 |
| Loans and advances | 5,730 | 1,010,406 |
| Other assets (excluding prepaid expenses) | 686,957 | 1,754,167 |
| Gross maximum credit risk exposure | 5,636,127 | 5,828,263 |

The maximum credit exposure to any single client or counterparty was KD 4,749,041 (2016: KD 2,871,726) before taking account of collateral or other credit enhancements.

Collateral and other credit enhancements

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

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

The fair value of collateral that the Group holds relating to loans and advances and other assets amounts to KD 9,500,000 (2016: KD 10,077,008).

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:

Notes to the Consolidated Financial Statements Year ended 31 December 2017

| | Kuwaiti Dinars | | | |
|---------------------------|------------------|------------------|--|----------------|
| | Assets | | Contingent liabilities and commitments | |
| | 2017 | 2016 | 2017 | 2016 |
| Geographic region: | | | | |
| Kuwait | 5,498,701 | 5,237,140 | 150,500 | 251,250 |
| Other Middle East* | 137,426 | 591,123 | - | - |
| Rest of the World | - | - | 48,197 | 48,934 |
| | <u>5,636,127</u> | <u>5,828,263</u> | <u>198,697</u> | <u>300,184</u> |

*Other Middle East countries includes GCC countries excluding Kuwait.

Industry sector:

| | | | | |
|----------------------------------|------------------|------------------|----------------|----------------|
| Banks and financial institutions | 5,606,030 | 5,788,026 | 150,500 | 250,000 |
| Other | 30,097 | 40,237 | 48,197 | 50,184 |
| | <u>5,636,127</u> | <u>5,828,263</u> | <u>198,697</u> | <u>300,184</u> |

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 2017, other assets, and loans and advances exposed to credit risk of KD 7,500,000 (2016:KD 7,500,000) were impaired against which the Group carries a provision of KD 7,500,000 (2016: KD 6,750,000).

27.2 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:

| Financial liabilities | Kuwaiti Dinars | | | | | | | |
|--|----------------|-----------|----------------|---------|---------------|-----------|-----------|-----------|
| | Up to 3 months | | 3 to 12 months | | Over one year | | Total | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Loan from bank | 3,064,253 | 3,225,275 | - | - | - | - | 3,064,253 | 3,225,275 |
| Accounts payable and other liabilities | 152,920 | 337,065 | 234,788 | 211,228 | 2,593,752 | 2,647,364 | 2,981,460 | 3,195,657 |
| Total undiscounted financial liabilities | 3,217,173 | 3,562,340 | 234,788 | 211,228 | 2,593,752 | 2,647,364 | 6,045,713 | 6,420,932 |
| Contingent liabilities and commitments | - | 750 | 150,500 | 250,500 | 48,197 | 48,934 | 198,697 | 300,184 |

Refer to Note 24 'Maturity analysis of assets and liabilities' for maturities of the financial liabilities shown above; which exclude future interest payments.

27.3 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.

27.3.1 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 short term deposits, term deposits, loans and advances, and loan from bank.

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.

Notes to the Consolidated Financial Statements
Year ended 31 December 2017

| Currency | Kuwaiti Dinars | |
|---------------|---------------------------------------|---------|
| | Increase of 25 basis points | |
| | Effect on statement of profit or loss | |
| | 2017 | 2016 |
| Kuwaiti Dinar | 730 | (1,655) |
| US Dollar | - | 613 |

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

27.3.2 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:

| Market indices | Increase in equity price | Kuwaiti Dinars | | | |
|-------------------|--------------------------|---------------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|
| | | 2017 | | 2016 | |
| | | Effect on statement of profit or loss | Effect on other comprehensive income | Effect on statement of profit or loss | Effect on other comprehensive income |
| Kuwait Index | 5% | 16,016 | 117,724 | 6,038 | 102,279 |
| Other GCC Indices | 5% | 73,283 | - | 74,845 | - |

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

27.3.3 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 | Kuwaiti Dinars | |
|------------------|------------------|------------------|
| | 2017 | 2016 |
| US Dollar | 1,214,737 | 1,741,326 |
| GCC currencies | 1,695,131 | 2,397,746 |
| Other currencies | 2,373 | 5,057 |
| | <u>2,912,241</u> | <u>4,144,129</u> |

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:

| Currency | Change in currency rate | Kuwaiti Dinars | | | |
|------------------|-------------------------|---------------------------------------|------------------|---------------------------------------|------------------|
| | | 2017 | | 2016 | |
| | | Effect on statement of profit or loss | Effect on equity | Effect on statement of profit or loss | Effect on equity |
| US Dollar | 5% | (5,182) | (55,555) | (13,772) | (73,294) |
| GCC currencies | 5% | (84,757) | - | (119,887) | - |
| Other currencies | 5% | (118) | - | (253) | - |

27.3.4 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.

28 - 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 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital. The Group includes within net debt, interest bearing loan 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.