KMEFIC

Annual Report 2014

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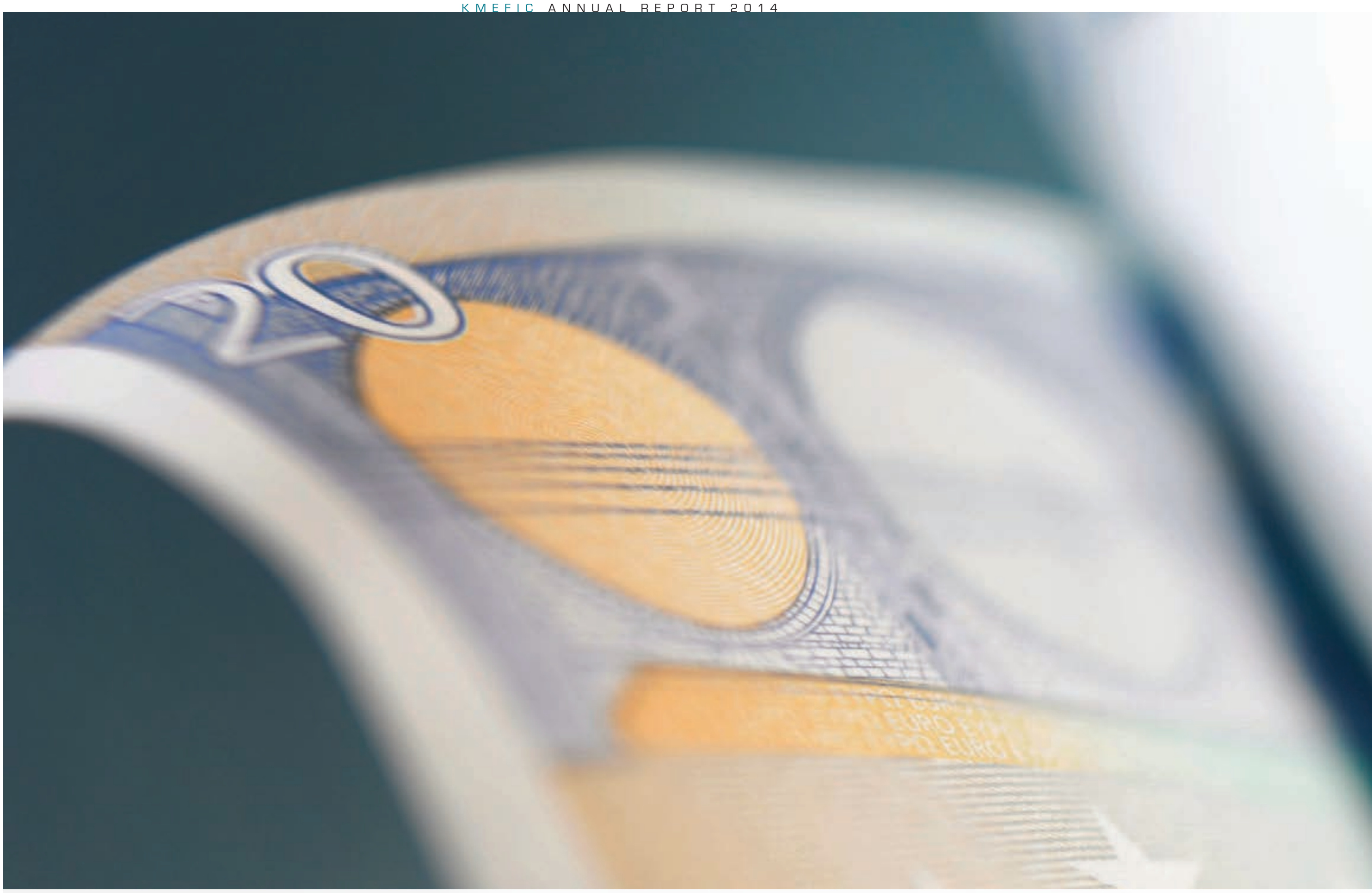
K M E F I C

P.O.Box 819 Safat, 13009 Kuwait
Tel.: 2225 5000 - 2225 5555
Fax: 2225 2557 - 2225 2564
E-mail: info@kmefic.com.kw
www.kmefic.com.kw

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

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

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



Chairperson's Message

Dear Shareholders,

The Year 2014 was another tough year with significant uncertainties surrounding the markets. Kuwait, like all the GCC countries has benefited greatly from high oil prices and increased production, enabling the government to record high fiscal and external surpluses and build strong buffers. Kuwait's fiscal policy priority is to use these reserves to smooth spending and to create adequate buffers for precautionary and future generations' savings. Although the government is making consistent efforts at diversifying the economy away from its oil price dependence, Kuwait's economy is still highly dependent on oil income and the main risk arises from lower global oil demand and low oil prices.

The IMF report on Kuwait, issued on December 2014, indicates that Kuwait's fiscal position is currently strong but restraint in current spending is needed to preserve buffers and increase saving for future generations. A medium-term fiscal strategy is required to drive reforms, which includes containing current expenditure growth, particularly subsidies and wages, prioritizing capital expenditure, and increasing non-oil revenue.

The conclusions drawn by the IMF

Euro

The Euro was introduced on January 1st 1999, as the official currency of 11 Member States, it replaced national currencies in two stages. The first only used the Euro for electronic and virtual payments, while the old currencies were used for cash transactions. Then, on January 1, 2002, the Euro banknotes and coins were introduced.

report are largely valid for all the GCC markets. The effectiveness of the regional governments to effectively manage their spending in light of reduced oil prices will be the key to economic growth and stock market performance in 2015. Any sustained improvement in oil price outlook will definitely play a significant role in improving the stock market indicators in the coming year.

Stock Market Performance

Right from the beginning of the year, major trends of Kuwait Stock Exchange showed weakness. Unlike most of its peers in the GCC, KSE started another annual journey in the red zone. Few bourses in the neighboring countries also joined this mode on and off until May, the month that preceded an overall plunge in the regional markets. Dubai's DFM, Abu Dhabi's ADX, & Qatar's QE reversed their trends sharply in July pulling all the GCC group of indices to the green zone. However, weakness stroked again when markets reflected the deterioration in oil prices, a change that came with a significant concerns on the socio-economic impacts of such declines in oil prices, alongwith political tensions in the Middle East, prompting a widespread sell-off in late 2014, which wiped out some of the gains achieved earlier in the year.

By the end of the year 2014, QE index was maintained the leadership position in gains by sustaining an increase of 21.8%, followed by BB index rising 14.2% YoY. DFM & ADX indices were able to withhold gains of 12% & 5.6% YoY respectively. On the other hand, KSE price index was the biggest loser falling by 13.4% in 2014, followed by MSM & SSE indices plunging 7.2% & 2.4% respectively. KSE topped the list of declining markets in the GCC, Major MENA and international markets.

Despite the negative quantitative performance, Kuwait Stock Exchange saw some reforms also as the Capital Market

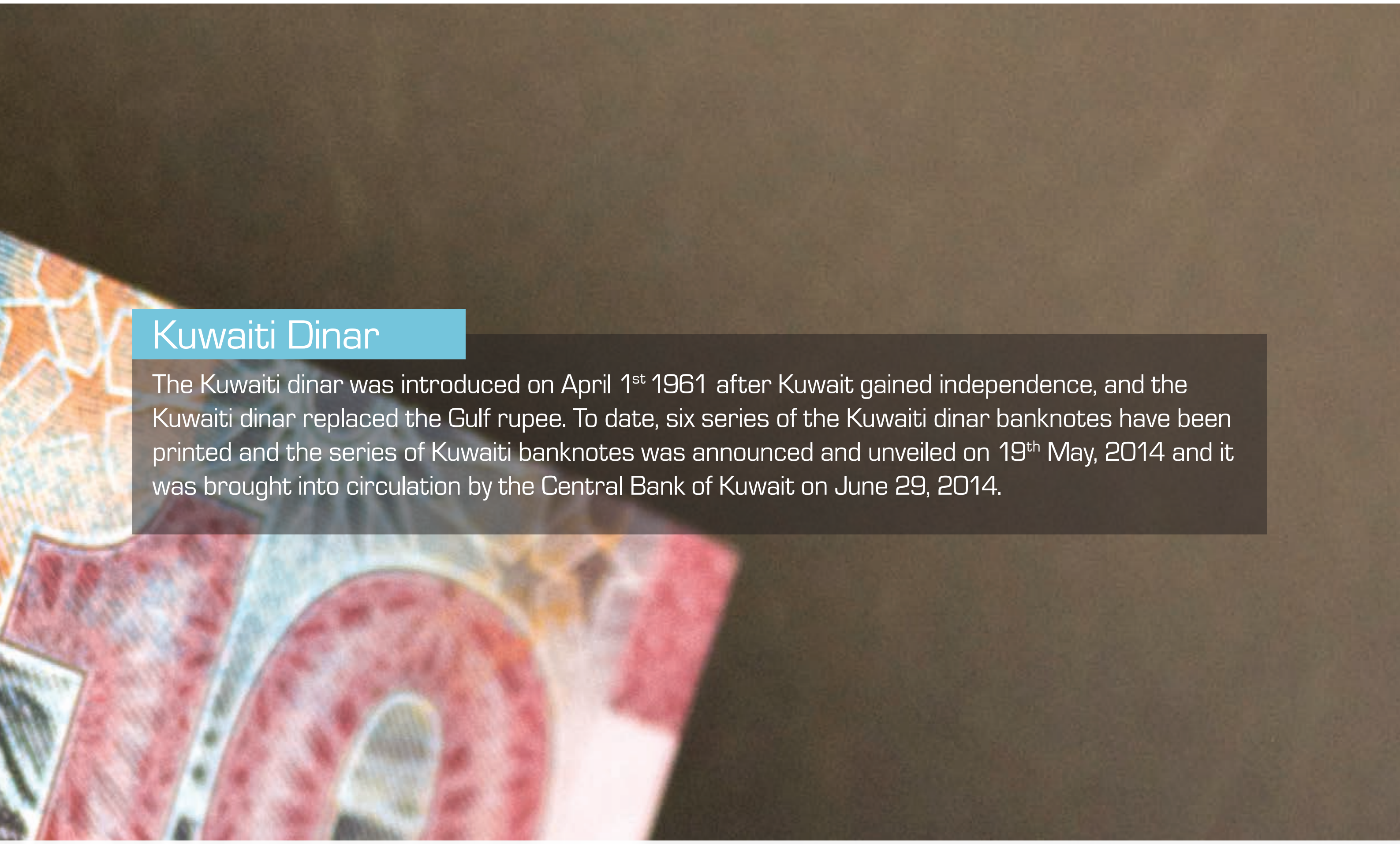
Chairperson's Message (continued)

Authority continued the issuance of related laws and regulations. Improvement in governance and regulatory structure of financial markets have been seen during the year and could be considered positive steps resulting in increased the confidence in the market and encourage the flow of new investments.

Company's performance

Across GCC, the Qatar, Bahrain and UAE stock markets returned positive performance whereas Saudi Arabia and Kuwait produced negative returns along with Muscat stock market. As for the two most important markets for KMEFIC, Saudi Arabia lost all its annual (YTD) gains of 23.9% towards the end of 3^{rd} Quarter 2014 switching to losses after TASI, the Saudi index concluded the year – losing 2.4%. On the other hand Kuwait's Weighted Index lost the positive gains it achieved 7.4% at the end of 3^{rd} Quarter 2014 switching to annual losses of 3.1% towards the end of 4^{th} Quarter 2014. The sharp corrections in these two markets affected the full year performance of the company.

From the last year's performance of KD 5.9 Million revenue, due to lackluster performance of the GCC markets, the total



Kuwaiti Dinar

The Kuwaiti dinar was introduced on April 1st 1961 after Kuwait gained independence, and the Kuwaiti dinar replaced the Gulf rupee. To date, six series of the Kuwaiti dinar banknotes have been printed and the series of Kuwaiti banknotes was announced and unveiled on 19th May, 2014 and it was brought into circulation by the Central Bank of Kuwait on June 29, 2014.

revenue decreased to KD 4.4 million. The brokerage commission income decreased from KD 2.0 Million during the previous year to KD 1.4 Million during current year. Gains from investments also declined from KD 0.6 Million to KD 0.3 Million. Due to sharp fall in Saudi market, the income from Associates also declined from KD 0.6 Million to KD 0.2 Million. Despite all these negative happenings of 2014, the management fees generated during the year were KD 2.0 Million, similar to the previous year's level. During 2014, the company also had to take additional provision of KD 0.75 Million against loans and advances which further negatively affected the company's performance for the year. The management continued to optimize resources and maintained the expenses at an optimal level. Total expenses slightly increased by 2.4% mainly due to additional fees paid to regulatory authorities.

The aforementioned factors contributed in the overall decline in the company's performance and the net loss attributable to its shareholders was KD 1.1 as compared to a profit of KD 1.2 million for the year 2013. This translated into basic and diluted loss per share of 4.4 fils in 2014 compared to basic and diluted profit per share of 4.2 fils in 2013. The sharp declines that hit the key markets of the company in 2014 directly contributed to the negative results during the year 2014.

Asset Management

The year-end results for KMEFIC's Kuwaiti and GCC equity strategies were mixed against the comparable benchmarks, given the strength of the mid and large cap space in face of the situation led to panics across the global markets and the regional stock markets due to the sudden and rapid decline of oil prices in the last quarter of 2014. However, on a risk adjusted basis, the portfolio managers were able to generate

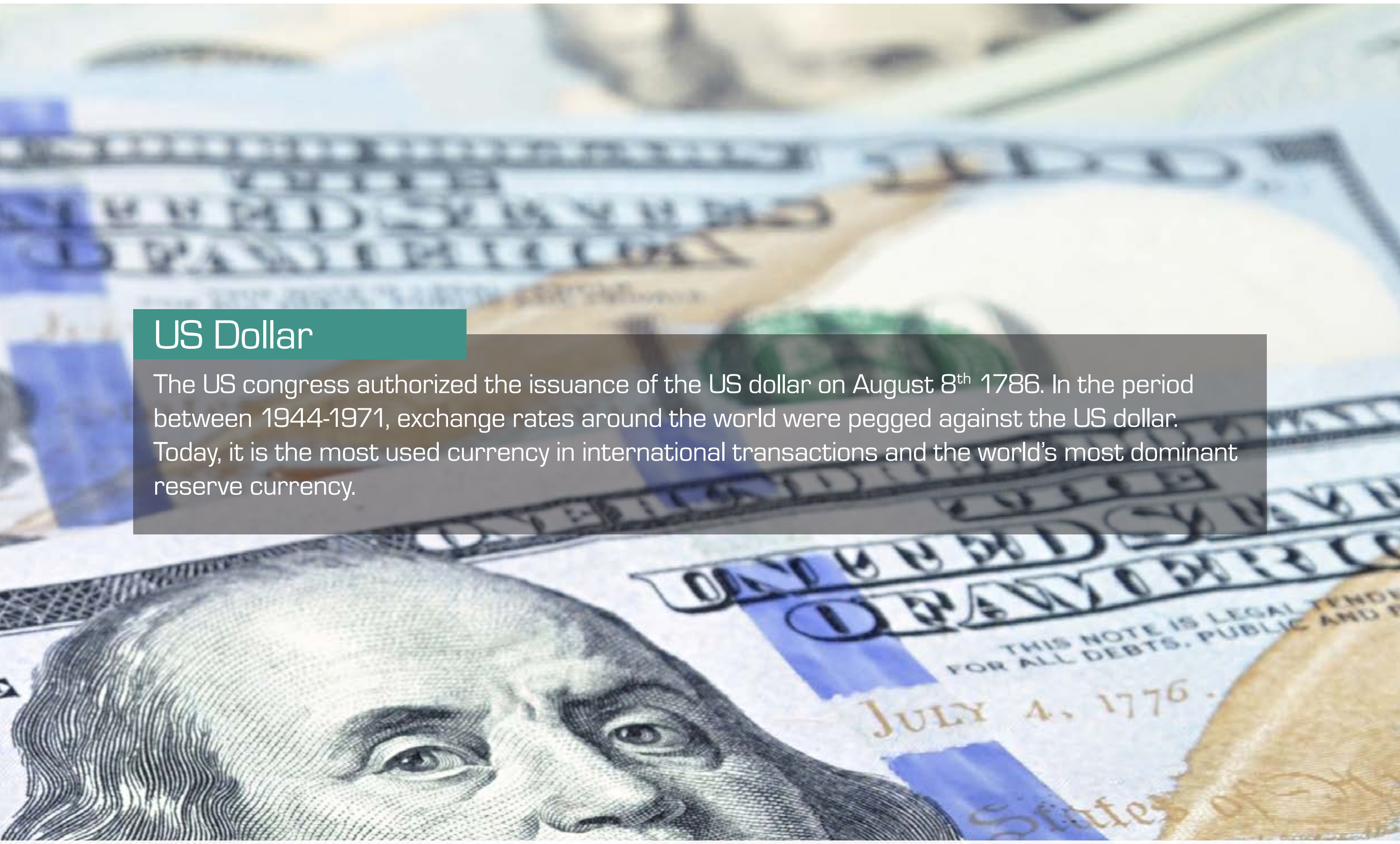
Chairperson's Message (continued)

relative outperformance against the comparable benchmarks with prudent stock selection and sector rotation.

In the Local Financial Derivatives, the Asset Management team was able to generate very attractive returns against the comparable benchmarks as a strong equity market until 3rd quarter of the year and increased trading activity attracted investors to invest through the derivatives investments. This in turn extended the team's winning streak to five years of solid relative returns.

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

There is a continued drive and determination at KMEFIC and its associate



US Dollar

The US congress authorized the issuance of the US dollar on August 8th 1786. In the period between 1944-1971, exchange rates around the world were pegged against the US dollar. Today, it is the most used currency in international transactions and the world's most dominant reserve currency.

to introduce innovative products and strategies to the investment public both locally and regionally by jointly launching new products and services.

We remain optimistic of delivering innovative products to the marketplace to support our asset management business and also to support our subsidiaries and associates investment objectives.

Brokerage

The Brokerage activities are managed primarily from the Online trading platform "Alawsat.com" and by our subsidiary Middle East Financial Brokerage Company "MEFBC-Kuwait". Starting with an upbeat note during the beginning of 2014, the Brokerage volumes continued to grow steadily until May 2014; by end of 2nd Quarter 2014, trade volumes started declining and the year ended with an aggregate volume of only KD 6.1 Billion vs KD 11.10 Billion during the year 2013. As a result of these declines in market volumes, KMEFIC's commission revenue fell from KD 2.0 Million in the previous year to KD 1.4 Million during the year 2014. Meanwhile, the management remained focused on its strategy of attracting special segment of customers and ensuring diversification between portfolios, funds and individuals. MEFBC is in the process of implementing its online trading features to its clients base.

Online Services

KMEFIC continues to offer the online trading on the markets of Kuwait, Saudi Arabia, Dubai, Abu Dhabi and Qatar in addition to the U.S. markets. In order to support and enhance our online services, KMEFIC has successfully launched the new online trading platform "Alawsat Trader" for desktops and laptops in 2013. In 2014, KMEFIC introduced a one of kind cross-platform mobile trading application "Hybrid HTML5 App" as a step to maintain its technological

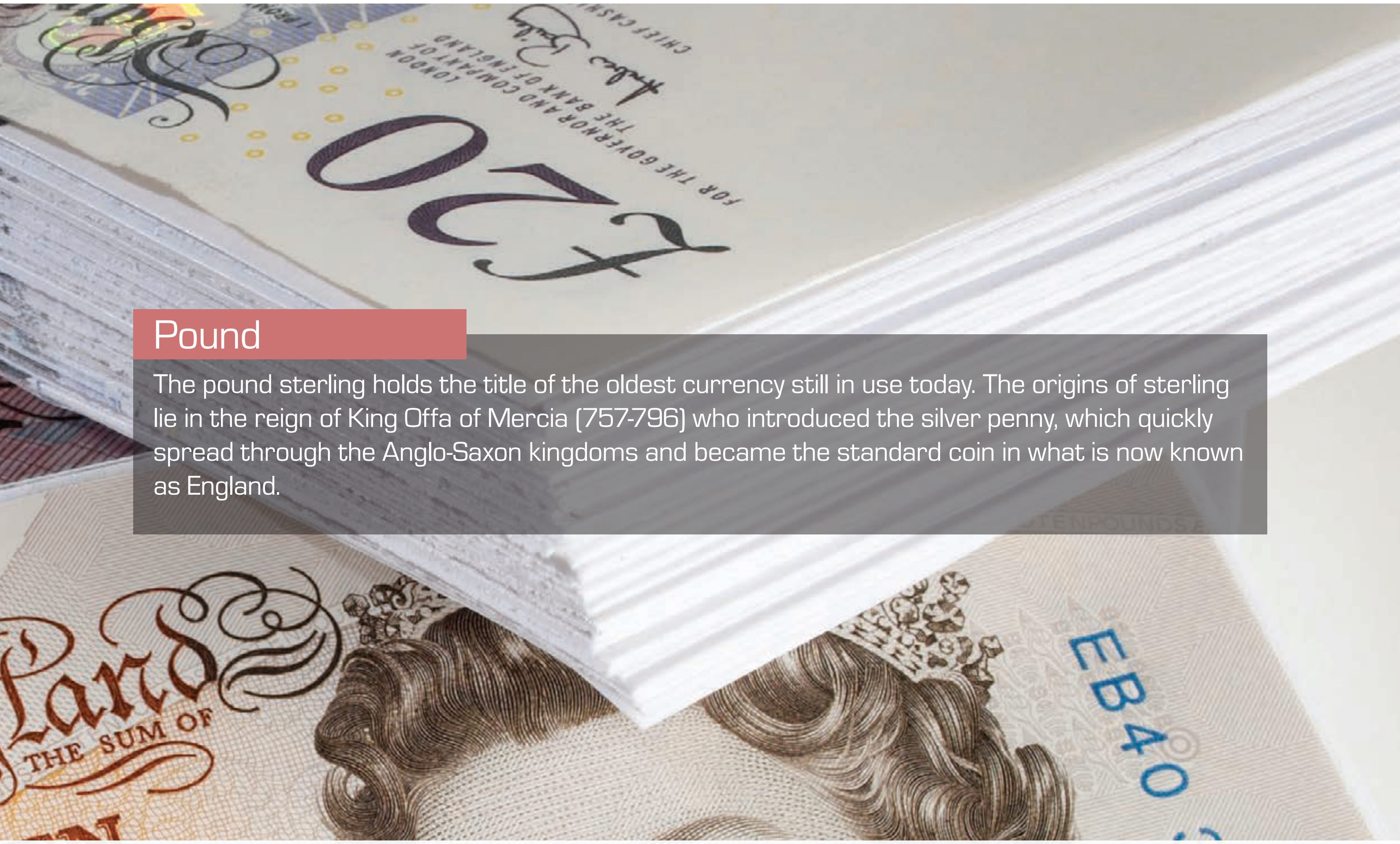
Chairperson's Message (continued)

edge and securing all possible investors' needs. In 2015, KMEFIC is working on launching a new native mobile application for IOS and Android operating systems providing the best user experience on mobile devices. KMEFIC's future technology strategy is oriented towards shifting to a cloud approach to ensure seamless user experience in all communication devices (desktop, mobile, and tablet).

Research

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

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



Pound

The pound sterling holds the title of the oldest currency still in use today. The origins of sterling lie in the reign of King Offa of Mercia (757-796) who introduced the silver penny, which quickly spread through the Anglo-Saxon kingdoms and became the standard coin in what is now known as England.

Closing Thoughts and Outlook

The backdrop of improvement in growth, with lower interest rates and inflation, is positive for the growth assets; however returns may be a bit more constrained and volatile than what we witnessed in 2014. Equities are likely to pick up again as the global recovery picks up driving strong earnings growth and low interest rates supporting investors' ongoing shift from cash and bonds into equities.

We aim to maintain a highly selective and thorough investment philosophy and process that aims to identify assets with favorable risk/reward characteristics in an effort to continue adding value to our clients investment objectives. The company will continue its strategy of liquidating underperforming long term assets, reduce debt liability and focus on its profit growth. To conclude, I would like to extend my sincere gratefulness and thankfulness to all of KMEFIC's management and staff for their unrelenting commitment which supports the company to reach its objectives and purposes while maintaining its position as a leading investment and asset management company in Kuwait. Lastly, I want to express my sincere appreciation on behalf of the company to our shareholders and clients for their belief and trust in KMEFIC's vision.

Jehad Saud Al-Humaidhi
Chairperson

Board of Directors

Jehad Al-Humaidhi
Chairperson

Hamed Al-Sanee
Vice Chairman & CEO

Herschel Post
Director

Ahmed Zulficar
Director

Prakash Mohan
Director

Hesham Zaghlool
Director

Rajeev Gogia
Director

Auditors' Report

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

EY
Building a better working world
Deloitte.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait and Middle East Financial Investment Company K.S.C.P. (the "company") and its subsidiaries (collectively, the "group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the company and the consolidated financial statements, together with the contents of the report of the company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 25 of 2012, as amended and its executive regulations and by the company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012, as amended and its executive regulations, or of the company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2014 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 2014, that might have had a material effect on the business of the company or on its financial position.

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

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

17 February 2015
Kuwait

Consolidated Statement of Financial Position

As at 31 December 2014

	Notes	2014 KD	2013 KD
Assets			
Cash and cash equivalents	3	**1,184,728**	1,230,732
Term deposits	4	**55,825**	50,750
Investments	5	**16,653,702**	17,405,389
Loans and advances	6	**6,877,716**	8,293,355
Investment in an associate	7	**9,742,541**	9,907,848
Investment properties	8	**864,548**	887,156
Other assets	9	**1,541,323**	2,147,006
Intangible assets	10	**12,500,000**	12,500,000
Equipment	11	**798,211**	1,097,798
TOTAL ASSETS		**50,218,594**	53,520,034
LIABILITIES AND EQUITY			
LIABILITIES			
Loans from bank	13	**23,291,432**	24,034,754
Accounts payable and other liabilities	14	**3,542,119**	4,161,746
TOTAL LIABILITIES		**26,833,551**	28,196,500
EQUITY			
Share capital	15	**26,381,499**	26,381,499
Reserves	16	**(3,609,904)**	(1,718,823)
		22,771,595	24,662,676
Treasury shares	17	**(1,174,880)**	(1,174,880)
Equity attributable to shareholders of the company		**21,596,715**	23,487,796
Non-controlling interest	18	**1,788,328**	1,835,738
TOTAL EQUITY		**23,385,043**	25,323,534
TOTAL LIABILITIES AND EQUITY		**50,218,594**	53,520,034

Jehad Saud Al Humaidhi
Chairperson

Hamed Hamad Al Sanee
Vice Chairman & CEO

The attached notes 1 to 29 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss

For the year ended 31 December 2014

	Notes	2014 KD	2013 KD
Continuing operations			
Income			
Management fees	24	2,009,226	2,061,494
Interest income	19	43,578	55,994
Commission income		1,375,886	1,995,437
Net gain on investments		259,431	634,505
Dividend income		397,909	511,319
Share of results from an associate	7	178,080	567,217
Foreign exchange gain		168,565	93,030
Other income		16,184	22,295
Total income		4,448,859	5,941,291
Expenses			
Staff expenses		2,576,645	2,503,707
Other operating expenses		1,187,767	1,102,289
Depreciation	8 & 11	387,979	432,862
Interest expense		708,544	706,621
Total expenses		4,860,935	4,745,479
Operating (loss) profit before provisions and impairment losses		(412,076)	1,195,812
(Provision) reversal of provision on loans and advances		(750,852)	5,857
(Loss) profit for the year from continuing operations		(1,162,928)	1,201,669
Discontinued operations			
Profit for the year from discontinued operations	12	67,239	88,072
(Loss) profit for the year before taxation		(1,095,689)	1,289,741
Taxation		-	(50,150)
(LOSS) PROFIT FOR THE YEAR		(1,095,689)	1,239,591
Attributable to			
Shareholders of the company		(1,094,410)	1,160,721
Non-controlling interest		(1,279)	78,870
		(1,095,689)	1,239,591
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE (FILS)	20	(4.2)	4.4
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE FROM CONTINUING OPERATIONS (FILS)	20	(4.4)	4.2

The attached notes 1 to 29 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Note	2014 KD	2013 KD
(Loss) profit for the year		**(1,095,689)**	1,239,591
Other comprehensive income:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**355,369**	33,860
Loss on hedge of net investments	13	**(163,993)**	(14,733)
Changes in fair value of investments available for sale		**(833,018)**	571,232
Net realised gain transferred to consolidated statement of profit or loss on disposal of investments available for sale		**(168,506)**	(253,847)
Other comprehensive (loss) income for the year		**(810,148)**	336,512
Total comprehensive (loss) income for the year		**(1,905,837)**	1,576,103
Attributable to:			
Shareholders of the company		**(1,891,081)**	1,497,811
Non-controlling interest		**(14,756)**	78,292
		(1,905,837)	1,576,103

The attached notes 1 to 29 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 KD	2013 KD
Operating activities			
(Loss) profit before tax for the year from continuing operations before taxation		(1,162,928)	1,201,669
Profit before tax for the year from discontinued operations before taxation	12	67,239	88,072
(Loss) profit before tax for the year before taxation		(1,095,689)	1,289,741
Adjustments for:			
Interest income		(43,578)	(55,994)
Gain on disposal of investments available for sale		(168,506)	(253,847)
Dividend income		(397,909)	(511,319)
Share of results from an associate	7	(178,080)	(567,217)
Depreciation	8 & 11	387,979	432,862
Interest expense		708,544	706,621
(Provision) reversal of provision on loans and advances		750,852	(5,857)
Gain from sale of subsidiaries	12	25,620	-
Reversal of provision on discontinued operations	12	(53,302)	(50,989)
Operating (loss) income before changes in operating assets and liabilities		(115,309)	984,001
Investments at fair value through statement of profit or loss		(48,045)	(166,166)
Loans and advances		(85,213)	271,159
Other assets		617,445	(171,729)
Accounts payable and other liabilities		147,026	135,759
Interest income received		43,714	49,646
Net cash from operating activities		559,618	1,102,670
Investing activities			
Term deposits placed		(5,075)	(750)
Purchase of investments available for sale		(1,415,867)	(2,402,771)
Proceeds from disposal of investments available for sale		1,552,064	1,000,408
Purchase of equipment	11	(65,820)	(69,589)
Proceeds from sale of equipment		-	10,346
Dividend income received		451,349	457,879
Dividend received from an associate		427,318	-
Proceeds from sale of subsidiary	12	90,003	-
Net cash from (used in) investing activities		1,033,972	(1,004,477)
Financing activity			
Repayment of bank loan		(907,315)	(118,744)
Ownership changes in subsidiary		(32,654)	(258,011)
Interest expense paid		(699,625)	(812,500)
Net cash used in financing activity		(1,639,594)	(1,189,255)
DECREASE IN CASH AND CASH EQUIVALENT		(46,004)	(1,091,062)
Cash and cash equivalent at beginning of the year		1,230,732	2,321,794
CASH AND CASH EQUIVALENT AT END OF THE YEAR	3	1,184,728	1,230,732

The attached notes 1 to 29 form part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2014

		Attributable to the shareholders of the company			
		Reserves			
	Share capital KD	Share premium KD	Statutory reserve KD	General reserve KD	Accumulated losses KD
Balance at 1 January 2014	26,381,499	1,157,687	6,707,958	6,379,860	(18,272,510)
Loss for the year	-	-	-	-	(1,094,410)
Other comprehensive (loss) income for the year	-	-	-	-	-
Total comprehensive (loss) income for the year	-	-	-	-	(1,094,410)
Setting off of accumulated losses (Note 16)	-	(1,157,687)	(6,707,958)	(6,379,860)	14,245,505
Ownership changes in a subsidiary during the year	-	-	-	-	-
Balance at 31 December 2014	**26,381,499**	**-**	**-**	**-**	**(5,121,415)**
Balance at 1 January 2013	26,381,499	1,157,687	6,707,958	6,379,860	(19,394,513)
Profit for the year	-	-	-	-	1,160,721
Other comprehensive income (loss) for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	1,160,721
Ownership changes in a subsidiary during the year	-	-	-	-	(38,718)
Balance at 31 December 2013	26,381,499	1,157,687	6,707,958	6,379,860	(18,272,510)

The attached notes 1 to 29 form part of these consolidated financial statements.

Fair valuation reserve KD	Foreign currency translation reserve KD	Treasury shares reserve KD	Total reserves KD	Treasury shares KD	Non controlling interest KD	Total equity KD
376,667	(110,745)	2,042,260	(1,718,823)	(1,174,880)	1,835,738	25,323,534
-	-	-	(1,094,410)	-	(1,279)	(1,095,689)
(988,047)	191,376	-	(796,671)	-	(13,477)	(810,148)
(988,047)	191,376	-	(1,891,081)	-	(14,756)	(1,905,837)
-	-	-	-	-	-	-
-	-	-	-	-	(32,654)	(32,654)
(611,380)	**80,631**	**2,042,260**	**(3,609,904)**	**(1,174,880)**	**1,788,328**	**23,385,043**
58,704	(129,872)	2,042,260	(3,177,916)	(1,174,880)	1,976,739	24,005,442
-	-	-	1,160,721	-	78,870	1,239,591
317,963	19,127	-	337,090	-	(578)	336,512
317,963	19,127	-	1,497,811	-	78,292	1,576,103
-	-	-	(38,718)	-	(219,293)	(258,011)
376,667	(110,745)	2,042,260	(1,718,823)	(1,174,880)	1,835,738	25,323,534

Notes to the Consolidated Financial Statements

At 31 December 2014

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 company's registered office is at 15th floor, Burj Al Jassem Building, Al Sour Street, Kuwait City, Kuwait.

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

The company is regulated by the Capital Market Authority ("CMA") and Central Bank of Kuwait ("CBK") as an investment company. The consolidated financial statements of the group for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Board of Directors on 17 February 2015. The shareholders of the company have the power to amend these consolidated financial statements at the annual general meeting.

2- SIGNIFICANT ACCOUNTING POLICIES

2.1- Basis of preparation

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the State of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all IFRS except for the International Accounting Standard IAS 39: Financial Instruments: Recognition and Measurement requirement for a collective provision, which has been replaced by the CBK's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

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

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

Changes in accounting policies

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

The accounting policies are consistent with those used in the previous year except for the adoption of amended IFRS that have become effective from 1 January 2014 and those which are applicable to the group:

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

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries in accordance with IAS 39. This amendment is not relevant to the group, as the company does not qualify to be an investment entity under IFRS 10.

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

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

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

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. Though these amendments have not resulted in any additional disclosures currently, the same would continue to be considered for future disclosures.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1- Basis of preparation (continued)

Changes in accounting policies (continued)

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. These amendments have not resulted in any impact on the financial position or performance of the group.

2.2- New standards and interpretations issued but not yet effective

The following standards have been issued but are not yet effective:

Standards issued but not yet effective up to the date of issuance of the group's consolidated financial statements are listed below. The group intends to adopt those standards when they become effective.

IFRS 9: Financial Instruments: Classification and Measurement

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

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The standard was issued in May 2014 and applies to an annual financial statements beginning on or after 1 January 2017. The application of IFRS 15 is not expected to have any material impact on the financial position or performance of the group.

IAS 19 Defined Benefit Plans – Employee Contributions (Amendments)

The amendments to IAS 19 clarify how an entity should account for contributions made by employers or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent on the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' period of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' period of service.

The group does not anticipate that the application of these amendments to IAS 19 will have a significant impact on the group's financial statements.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2014 did not have any material impact on the accounting policies, financial position or performance of the group.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2014

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3- 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 acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the group gains control until the date the group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the group and to the non-controlling interest, even if this results in the non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

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

The subsidiaries of the group are as follows:

Name of the Subsidiaries	Country of incorporation	Principal activity	Percentage of holding 2014	2013
Al Awsat First Holding Company K.S.C.C.*	Kuwait	Investment	97%	97%
Egypt & Middle East Brokerage Company (Note 12)	Egypt	Brokerage	-	100%
Middle East Financial Brokerage Company K.S.C. ('MEFBC')	Kuwait	Brokerage	90%	90%
Gulf Gate Fund ("the Fund")	Kuwait	Fund	94%	92%
Subsidiaries under liquidation (Note 12)				
Middle East Financial Brokerage Company L.L.C.	Oman	Brokerage	100%	100%
Middle East Financial Brokerage Company L.L.C	U.A.E	Brokerage	-	100%

*Residual interest in the subsidiary is held through nominees.

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.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3- Summary of significant accounting policies (continued)

Financial assets and liabilities

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

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

Investments at fair value through profit or loss

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

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

Loans and receivables

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

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

Investments available for sale

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

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

Financial liabilities other than at fair value through statement of income

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

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

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.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2014

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3- Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Fair value (continued)

The group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

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

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

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

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

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

Recognition and de-recognition

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

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

- The rights to receive the cash flows from the asset have expired;
- The group has retained its right to receive cash flows from the assets or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and either (a) the group has transferred substantially all the risks and rewards of the asset, or (b) the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the group has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, an asset is recognised to the extent of the group's continuing involvement in the asset.

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

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3- Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, the group has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset, or a group of financial assets, is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. In the case of financial asset classified as investments available for sale, a significant or prolonged decline in the fair value of assets below its cost is considered in determining whether the assets are impaired. If any such evidence exists for investments available for sale, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of income, is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity investments classified as investments available for sale recognised in the consolidated statement of income are not reversed through the consolidated statement of income.

Loans and receivables are subject to credit risk provision for loan impairment if there is objective evidence that the group will not be able to collect all amounts due. The amount of the provision is difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amount recoverable from guarantee and collateral, discounted based on the contractual interest rate. The amount of loss arising from impairment is taken to the consolidated statement of income.
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.

Hedge accounting

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

For the purposes of hedge accounting, hedges are classified into two categories:
a- Fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and
b- Hedge of net investment in foreign operations

Fair value hedge

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

Hedge of net investments in foreign operations

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

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2014

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3- Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Investment in associates

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

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment.

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

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

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

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

Investment properties

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

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

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

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

Intangible assets

Intangible assets acquired separately are measured at cost on initial recognition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic lives 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.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3- Summary of significant accounting policies (continued)

Equipment

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

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

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

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

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

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

Fair value measurement of non-financial assets

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Provision for impairment of non-financial assets

An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value less costs to sell and value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In determining the fair value less costs to sell, an appropriate valuation model is used. An assessment is made at each reporting date to determine whether there is objective evidence that a specific asset, or a group of similar assets, may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

Borrowing costs

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

Provisions

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

Employees' end of service indemnity

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2014

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3- Summary of significant accounting policies (continued)

Foreign currency translation

Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to KD at rates of exchange ruling at the reporting date. Any resultant gains or losses are recognised in the consolidated statement of profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to KD at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised in other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised in the consolidated statement of income are recognised in the consolidated statement of profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are not retranslated.

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

Treasury shares

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

Share based payment

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

Revenue recognition

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

Fiduciary assets

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

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4- 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 income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Impairment of investments available for sale

The group treats investments available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement and involves evaluating factors including industry and market conditions, future cash flows and discount factors.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same ;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- Other valuation models.

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

Impairment of non-financial assets

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

3- CASH AND CASH EQUIVALENTS

	2014 KD	2013 KD
Cash on hand	**2,100**	2,100
Cash at banks	**1,182,628**	1,228,632
	1,184,728	1,230,732

Certain balances included in cash and balances with banks are placed with related parties (Note 22).

4- TERM DEPOSITS

Term deposits are held with commercial banks in the region, for a period of one year, at interest rates of 1.25% (2013: 1.25%) per annum.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2014

5- INVESTMENTS

	2014 KD	2013 KD
Investments at fair value through statement of profit or loss		
Financial assets held for trading:		
Quoted equity securities	1,861,022	1,781,644
Managed funds	229,087	260,420
	2,090,109	2,042,064
Investments available for sale		
Quoted equity securities	2,183,731	1,722,150
Unquoted equity securities	2,981,781	4,086,596
Funds	9,398,081	9,554,579
	14,563,593	15,363,325
	16,653,702	17,405,389

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 2014 was KD 7,107,754 (2013: KD 7,865,659). The group has recorded unrealised gain of KD 181,179 (2013: unrealised loss of KD 351,205) 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 8.5 million (2013: KD 9.1 million) are pledged as security against the loan (Note 13).

6- LOANS AND ADVANCES

	2014 KD	2013 KD
Loans to customers	7,821,297	7,840,399
Loans to staff	573,549	469,234
	8,394,846	8,309,633
Less: General provision	(8,866)	(8,014)
Less: Specific provision	(1,508,264)	(8,264)
	6,877,716	8,293,355

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

	2014 KD	2013 KD
At 1 January	16,278	22,135
Net movement in provision	1,500,852	(5,857)
	1,517,130	16,278

Loans and advances include a loan amounting to KD 7,500,000 from a debtor that was under the Financial Stability Law (FSL). The loan amount is secured by a real estate property, the title of which is in the company's name. During the year the FSL court has withdrawn protection to this debtor under FSL. Consequently, following an assessment by management, the loan is currently carried at KD 6,000,000.

7- INVESTMENT IN ASSOCIATE

The company has 30% (2013: 30%) interest in Middle East Financial Investment Company, an unlisted company incorporated in Kingdom of Saudi Arabia engaged in financial services activities.

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

	2014 KD	2013 KD
Share of associate's assets and liabilities		
Current assets	3,781,768	1,829,962
Non-current assets	6,438,028	11,587,564
Current liabilities	(288,466)	(3,335,923)
Non-current liabilities	(188,789)	(173,755)
Net assets	9,742,541	9,907,848
Share of associate's income and results		
Operating income	2,281,526	2,278,172
Profit for the year	178,080	567,217

8- INVESTMENT PROPERTIES

Investment properties represents business units in commercial complex. As at 31 December 2014, the fair value of the investment properties is KD 1,660,840 (2013: KD 1,369,165). Investment properties were revalued by an independent valuer using market comparable approach that reflects recent transaction prices for similar properties and are therefore classified under Level 2. In estimating the fair value of investment properties, the highest and best use is their current use. Depreciation charged during the year is KD 22,608 (2013: KD 16,956).

9- OTHER ASSETS

	2014 KD	2013 KD
Dues from unsettled trades	334,636	556,211
Accrued management fee	401,985	447,265
Receivable from disposal of investments	4,066,071	4,343,738
Prepaid expenses	133,373	127,112
KSE Broker deposit	250,000	250,000
Others	332,965	400,387
	5,519,030	6,124,713
Less: Provision for doubtful receivables	(3,977,707)	(3,977,707)
	1,541,323	2,147,006

10- INTANGIBLE ASSETS

Intangible assets represent brokerage licence acquired from Kuwait Stock Exchange for KD 12,500,000 (2013: KD 12,500,000). This licence has indefinite useful life.

Impairment testing

The group determines whether brokerage licenses are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units (CGUs) to which these items are allocated. The recoverable amount is determined based on higher of value-in-use calculations or fair value less selling cost. These calculations use pre-tax cash flow projections over a five year period based on historical pattern of trade volume and a relevant terminal growth rate. Terminal growth beyond the five year period has been based extrapolating using a growth rate which does not exceed the long term average growth rate of Kuwait. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. A discount rate of 8% to 9% (2013: 8% to 9%) and terminal growth rate of 2.5% - 3.5% (2013: 2.5% to 3.5%) is used to estimate the recoverable amount of this CGU.

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

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At 31 December 2014

11- EQUIPMENT

	Furniture and equipment KD	Computers KD	Software KD	Capital work in progress KD	Total KD
Cost					
At 1 January 2014	1,724,982	1,318,911	2,104,376	49,350	5,197,619
Additions	5,682	9,736	11,051	39,351	65,820
Transfers	3,827	-	72,459	(76,286)	-
Relating to subsidiary sold	(98,485)	(40,676)	(33,667)	-	(172,828)
Disposals	(6,740)	-	-	-	(6,740)
At 31 December 2014	**1,629,266**	**1,287,971**	**2,154,219**	**12,415**	**5,083,871**
Accumulated depreciation					
At 1 January 2014	1,693,854	1,084,911	1,321,056	-	4,099,821
Depreciation	14,343	212,939	138,090	-	365,371
Disposals	(6,705)	-	-	-	(6,704)
Relating to subsidiary sold	(98,485)	(40,676)	(33,667)	-	(172,828)
At 31 December 2014	**1,603,007**	**1,257,174**	**1,425,479**	**-**	**4,285,660**
Net book value at 31 December 2014	**26,259**	**30,797**	**728,740**	**12,415**	**798,211**

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

12- DISCONTINUED OPERATIONS

Pursuant to the decision taken by the Board of directors in 2011, during the year the company has carried out the liquidation of its subsidiaries namely, Middle East Financial Brokerage Company L.L.C., UAE and is in final stages of liquidating another subsidiary in Oman namely Middle East Financial Brokerage Company L.L.C.

During the year, the company sold its subsidiary in Egypt namely Egypt & Middle East Brokerage Company for total consideration of KD 90,003 resulting in gain on sale of subsidiary of KD 25,620.

The results of the discontinued operations are as follows:

	2014 KD	2013 KD
Income	130	89,353
Expenses	(11,813)	(16,786)
Provision on other assets	-	(35,484)
Reversal of provision (net)	53,302	50,989
Gain on sale of subsidiary	25,620	-
Profit for the year from discontinued operations before taxation	67,239	88,072
Taxation	-	(4,649)
	67,239	83,423
Attributable to:		
Shareholders of the company	67,239	76,690
Non-controlling interest	-	6,733
	67,239	83,423
Earnings per share		
Basic and diluted earnings per share from discontinued operations (fils)	0.2	0.2

13- LOANS FROM BANK

Loans from bank represents secured loans from the parent company, secured by mortgaging assets of the company comprising shares of investment in subsidiaries (Note 2.3), certain investments available for sale (Note 5), loans and advances (Note 6) and investment in an associate (Note 7). The loans were carried at effective interest rate of 3% (2013: 3%) per annum.

Hedge of net investments in foreign operations

Included in loans from banks is loan of KD 4,559,770 (2013: KD 4,393,616) denominated in foreign currency USD 15,546,966 (2013: USD 15,551,247), which have been designated as a hedge of the net investments in certain foreign operations.

The loans are being used to hedge the group's exposure to foreign exchange risk on these investments. Gains or losses on the retranslation of loans from banks and financial institutions are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in certain foreign operations. Foreign exchange loss arising on translation of the hedging instruments (loans) amounting KD 163,993 (2013: loss of KD 14,733) were taken directly to other comprehensive income. There is no hedge ineffectiveness at 31 December 2014.

14- ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2014 KD	2013 KD
End of service benefit	1,875,732	1,563,186
Other staff payables	281,737	282,939
Loan interest payable	175,397	166,488
Brokerage payables	46,203	68,261
Others	1,163,050	2,080,872
	3,542,119	4,161,746

Notes to the Consolidated Financial Statements (continued)

At 31 December 2014

15- SHARE CAPITAL

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

	2014 KD	2013 KD
Authorised: 265,454,991 shares of 100 fils each	**26,545,499**	26,545,499
Issued and fully paid up: 263,814,991 shares of 100 fils each paid in cash	**26,381,499**	26,381,499

The issued and fully paid up share capital includes 15,837,638 shares amounting to KD 1,583,764 (2013: 15,837,638 shares amounting to KD 1,583,764) on account of share option plan for employees.

16- RESERVES

Setting off of accumulated losses

The shareholders of the company at their annual general meeting held on 2 June 2014 approved to set off accumulated losses of KD 14,245,505 as at 31 December 2013 against share premium of KD 1,157,687, statutory reserve of KD 6,707,958 and general reserve of KD 6,379,860.

Share premium and treasury shares reserve

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

Statutory reserve

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

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

No transfer has been made to the reserve during the year 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.

17- TREASURY SHARES AND TREASURY SHARE RESERVES

	2014 KD	2013 KD
Number of own shares	**2,623,500**	2,623,500
Percentage of issued shares	**1%**	1%
Book value (KD)	**1,174,880**	1,174,880
Market value (KD)	**125,928**	178,398
Weighted average market value per treasury share (fils)	**51.5**	57.5

The balance in the treasury shares reserve is not available for distribution.

18- NON CONTROLLING INTEREST

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

Name of the Subsidiaries	Proportion of ownership interest and voting rights		(Loss) profit allocated to non-controlling interest		Accumulated non-controlling interest	
	2014	2013	**2014**	2013	**2014**	2013
	KD	KD	**KD**	KD	**KD**	KD
Middle East Financial Brokerage Company "MEFBC"	**10%**	10%	**(15,189)**	48,225	**1,618,685**	1,661,984
Gulf Gate Fund "The Fund"	**6%**	8%	**13,910**	30,645	**169,643**	173,754
Total			**(1,279)**	78,870	**1,788,328**	1,835,738

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

	2014		2013	
	MEFBC	**The Fund**	MEFBC	The Fund
	KD	**KD**	KD	KD
Total assets	**16,648,168**	**2,918,504**	16,737,935	2,209,802
Total liabilities	**272,887**	**14,266**	195,321	11,409
Total income	**654,185**	**304,235**	1,488,643	425,008
Total expenses	**(806,075)**	**(66,099)**	(1,006,395)	(51,400)
Total (loss) profit for the year	**(151,890)**	**238,136**	482,248	373,608
Net (decrease) increase in operating activities	**(271,288)**	**184,687**	689,604	212,567
Net decrease in investing activities	**(321,690)**	**-**	(1,349,770)	-
Net increase (decrease) in financing activities	**-**	**467,337**	-	(476,665)
Net (decrease) increase in cash and cash equivalents	**(592,978)**	**652,024**	(660,166)	(264,098)

19- INTEREST INCOME

	2014	2013
	KD	KD
Term deposits and bank balances	**7,853**	7,638
Loans and advances	**35,725**	48,356
	43,578	55,994

Notes to the Consolidated Financial Statements (continued)

At 31 December 2014

20- BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

Basic and diluted (loss) earnings 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:

	2014 KD	2013 KD
(Loss) profit for the year attributable to the shareholders of the company (KD)	**(1,094,410)**	1,160,721
Weighted average number of shares outstanding during the year	**261,191,491**	261,191,491
Basic and diluted (loss) earnings per share (fils)	**(4.2)**	4.4

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

	2014 KD	2013 KD
Weighted average number of issued and paid up shares	**263,814,991**	263,814,991
Less: Weighted average number of treasury shares	**(2,623,500)**	(2,623,500)
Weighted average number of shares	**261,191,491**	261,191,491

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

	2014 KD	2013 KD
(Loss) profit for the year from continuing operations attributable to the shareholders of the company (KD)	**(1,161,649)**	1,084,031
Weighted average number of shares outstanding during the year	**261,191,491**	261,191,491
Basic and diluted (loss) earnings per share from continuing operations (fils)	**(4.4)**	4.2

21- EMPLOYEE SHARE OPTION PLAN

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

As at 31 December 2014, total outstanding options of 4,430,000 shares were out of the money and none of the options were exercised as of that date.

22- 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:

	2014 KD	2013 KD
Related party balances		
Cash placed with the parent company	366,851	1,231,593
Investments	8,149,455	8,504,472
Receivable from the parent company	27,367	44,740
Receivable from other related parties	248,836	659,055
Loans and advances to key management personnel	506,245	405,763
Loans taken from the parent company (Note 13)	(23,291,432)	(24,034,754)
Guarantees taken from the parent company	500	500
Investments and funds managed in a fiduciary capacity	27,710,241	40,341,112
Related party transactions		
Management fees earned	71,942	88,273
Interest income	21,587	14,293
Interest expense on loans taken from the parent company	(708,544)	(706,621)
Key management compensation		
Salaries and other short term benefits	665,504	551,239

23- COMMITMENTS AND CONTINGENT LIABILITIES

	2014 KD	2013 KD
Commitments		
Uncalled capital contributions relating to investments available for sale	46,820	81,824
Contingent liabilities		
Guarantees	251,250	251,250

Guarantees issued by the group noted above exclude a guarantee of KD 44.73 million (2013: KD 43.09 million) because this guarantee is backed by an irrevocable counter guarantee of an equal amount issued in favour of the group by a sovereign authority of Kuwait.

24- 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 2014, total fiduciary assets managed by the company amounted to KD 524 million (2013: KD 591 million). Management fee of KD 2,009,226 (2013: KD 2,061,494) has been recognised by the company for management of fiduciary assets.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2014

25- MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for investments, investment properties, non-current assets held for sale and investment in associates is based on management's estimate of liquidation of these financial assets.

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

	Up to 1 month		1 to 3 months		3 to 12 months		Over one year		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	KD	KD	**KD**	KD	**KD**	KD	**KD**	KD	**KD**	KD
Assets										
Cash and cash equivalents	**1,184,728**	1,230,732	**-**	-	**-**	-	**-**	-	**1,184,728**	1,230,732
Term deposits	**55,825**	50,750	**-**	-	**-**	-	**-**	-	**55,825**	50,750
Investments	**7,317,610**	5,083,478	**1,643,373**	2,042,063	**556,398**	1,390,591	**7,136,321**	8,889,257	**16,653,702**	17,405,389
Loans and advances	**109,102**	-	**-**	-	**6,768,614**	8,250,785	**-**	42,570	**6,877,716**	8,293,355
Investment in an associate	**-**	-	**-**	-	**-**	-	**9,742,541**	9,907,848	**9,742,541**	9,907,848
Investment properties	**-**	-	**-**	-	**864,548**	-	**-**	887,156	**864,548**	887,156
Other assets	**565,604**	1,227,000	**276,203**	77,273	**328,736**	592,733	**370,780**	250,000	**1,541,323**	2,147,006
Intangible assets	**-**	-	**-**	-	**-**	-	**12,500,000**	12,500,000	**12,500,000**	12,500,000
Equipment	**-**	-	**-**	-	**-**	5,732	**798,211**	1,092,066	**798,211**	1,097,798
	9,232,869	7,591,960	**1,919,576**	2,119,336	**8,518,296**	10,239,841	**30,547,853**	33,568,897	**50,218,594**	53,520,034
Liabilities										
Loans from bank*	**-**	-	**23,291,432**	-	**-**	24,034,754	**-**	-	**23,291,432**	24,034,754
Accounts payable and other liabilities	**222,351**	166,477	**-**	166,432	**508,327**	570,452	**2,811,441**	3,258,385	**3,542,119**	4,161,746
	222,351	166,477	**23,291,432**	166,432	**508,327**	24,605,206	**2,811,441**	3,258,385	**26,833,551**	28,196,500
Net liquidity gap	**9,010,518**	7,425,483	**(21,371,856)**	1,952,904	**8,009,969**	(14,365,365)	**27,736,412**	30,310,512	**23,385,043**	25,323,534

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

26- SEGMENT INFORMATION

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

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

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

26- SEGMENT INFORMATION (continued)

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

	Asset management	Brokerage& online trading	Credit operations	Investment & treasury	Total
2014					
Segment revenue	2,362,588	1,375,886	43,039	667,346	4,448,859
Segment expenses	(1,230,383)	(1,485,841)	(14,625)	(2,130,086)	(4,860,935)
Provisions on loans and advances	-	-	(750,852)	-	(750,852)
Segment results -continuing operations	1,132,205	(109,955)	(722,438)	(1,462,740)	(1,162,928)
Segment assets	2,744,046	13,379,850	7,100,677	26,994,021	50,218,594
Segment liabilities	(566,800)	(307,961)	(7,500,000)	(18,458,790)	(26,833,551)
	2,177,246	13,071,889	(399,323)	8,535,231	23,385,043

	Asset management	Brokerage& online trading	Credit operations	Investment & treasury	Total
2013					
Segment revenue	2,486,016	1,995,438	56,131	1,403,706	5,941,291
Segment expenses	(1,195,189)	(1,407,986)	(14,625)	(2,127,679)	(4,745,479)
Reversal of provision on loans and advances	-	-	5,857	-	5,857
Segment results -continuing operations	1,290,827	587,452	47,363	(723,973)	1,201,669
Segment assets	2,814,921	13,726,615	8,516,958	28,461,540	53,520,034
Segment liabilities	(393,659)	(217,437)	(7,500,000)	(20,085,404)	(28,196,500)
	2,421,262	13,509,178	1,016,958	8,376,136	25,323,534

27- FAIR VALUES OF FINANCIAL INSTRUMENTS

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

2014	Level: 1 KD	Level: 2 KD	Level: 3 KD	Total KD
Investments at fair value through profit or loss				
Quoted equity securities and managed funds	1,861,022	229,087	-	2,090,109
Investments available for sale				
Equity securities	2,183,732	-	2,981,781	5,165,513
Funds	4,902,299	4,495,781	-	9,398,080
	7,086,031	4,495,781	2,981,781	14,563,593

2013	Level: 1 KD	Level: 2 KD	Level: 3 KD	Total KD
Investments at fair value through profit or loss				
Quoted equity securities and managed funds	1,781,645	260,419	-	2,042,064
Investments available for sale				
Equity securities	1,722,150	4,002,686	-	5,724,836
Funds	5,083,478	4,471,101	-	9,554,579
	6,805,628	8,473,787	-	15,279,415

During the year equity securities amounting to KD 700,834 were transferred from Level 2 to Level 1 and KD 3,385,763 from Level 2 to Level 3.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2014

27- FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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 income approach which utilises two stage dividend discount model and earnings capitalization model approach. A weighted average cost of capital of 7 % to 9% is used to arrive at fair values and is based on management's judgment. A 1% increase in the weighted average cost of capital will result in a decrease in fair values of these securities by KD 475,000.
- Fair values of unquoted funds are measured based on their latest net asset values provided by the respective fund manager.

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

	Total KD
2014	
Opening balance	-
Transfer from Level 2	3,385,763
Net loss recognized in statement of profit or loss and other comprehensive income	(403,982)
Closing balance	2,981,781

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.

28- RISK MANAGEMENT

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

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

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

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

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 2013.

28- RISK MANAGEMENT (continued)

28.1- 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.

	2014 KD	2013 KD
Cash at banks	1,182,628	1,228,632
Term deposits	55,825	50,750
Loans and advances	6,877,716	8,293,355
Other assets (excluding prepaid expenses)	1,407,950	2,019,894
Gross maximum credit risk exposure	9,524,119	11,592,631

The maximum credit exposure to any single client or counterparty was KD 6,000,000 (2013: KD 7,500,000) before taking account of collateral or other credit enhancements.

Collateral and other credit enhancements

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

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

The fair value of collateral that the group holds relating to loans and advances and other assets amounts to KD 12,051,893 (2013: KD 12,414,734).

Risk concentration of maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations indicate the relative sensitivity of the group's performance to developments affecting a particular industry or geographic location.

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2014

28- RISK MANAGEMENT (continued)

28.1- Credit risk (continued)

Risk concentration of maximum exposure to credit risk (continued)

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

	Assets		Contingent liabilities and commitments	
	2014	2013	**2014**	2013
	KD	KD	**KD**	KD
Geographic region:				
Kuwait	**8,597,217**	11,374,064	**251,250**	251,250
Other Middle East*	**926,902**	179,155	**-**	-
Rest of the World	**-**	39,412	**46,820**	81,824
	9,524,119	11,592,631	**298,070**	333,074

*Other Middle East countries mainly includes GCC countries excluding Kuwait.

	Assets		Contingent liabilities and commitments	
Industry sector:				
Banks and financial institutions	**8,606,178**	10,718,223	**250,000**	250,000
Other	**917,941**	874,408	**48,070**	83,074
	9,524,119	11,592,631	**298,070**	333,074

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 2014, other assets, and loans and advances exposed to credit risk of KD 11,485,971 (2013: KD 3,985,971) were impaired against which the group carries a provision of KD 5,485,971 (2013: KD 3,985,971).

28.2- 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.

28- RISK MANAGEMENT (continued)

28.2- Liquidity risk (continued)

The table below summarises the maturity profile of the group's liabilities based on contractual undiscounted repayment obligations. The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities. The liquidity profile of financial liabilities at 31 December was as follows:

	Up to 1 month		1 to 3 months		3 to 12 months		Over one year		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Financial liabilities	**KD**	KD	**KD**	KD	**KD**	KD	**KD**	KD	**KD**	KD
Loans from banks	**59,345**	-	**23,410,498**	122,312	**-**	24,213,335	**-**	-	**23,469,843**	24,335,647
Accounts payable and other liabilities	**222,351**	166,477	**-**	166,432	**508,327**	570,452	**2,811,441**	3,258,385	**3,542,119**	4,161,746
Total undiscounted financial liabilities	**281,696**	166,477	**23,410,498**	288,744	**508,327**	24,783,787	**2,811,441**	3,258,385	**27,011,962**	28,497,393
Contingent liabilities and commitments	**750**	750	**-**	-	**250,500**	250,500	**46,820**	81,824	**298,070**	333,074

Refer to Note 25 'Maturity analysis of assets and liabilities' for maturities of the financial liabilities shown above; which exclude future interest payments.

28.3- 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.

28.3.1- Interest rate risk

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

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

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

	Increase of 25 basis points	
Currency	Loss	
	2014	2013
	KD	KD
Kuwaiti Dinar	**(30,252)**	(29,034)
US Dollar	**(10,782)**	(10,320)

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2014

28- RISK MANAGEMENT (continued)

28.3- Market risk (continued)

28.3.2- 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:

		2014		2013	
Market indices	**Increase in equity price**	**Effect on loss KD**	**Effect on equity KD**	Effect on profit KD	Effect on equity KD
Kuwait Index	5%	**8,812**	**289,058**	28,662	255,627
Other GCC Indices	5%	**83,259**	**27,714**	47,806	-

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

28.3.3- 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	**2014 KD**	2013 KD
US Dollar	**(2,659,938)**	(2,242,932)
GCC currencies	**14,018,893**	13,635,004
Other currencies	**98,568**	65,311
	11,457,523	11,457,383

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:

		2014		2013	
Currency	**Decrease in currency rate**	**Effect on loss KD**	**Effect on equity KD**	Effect on profit KD	Effect on equity KD
US Dollars	5%	**(11,006)**	**144,003**	(26,379)	138,525
GCC currencies	5%	**(126,831)**	**(574,113)**	(78,430)	(603,320)
Other currencies	5%	**(4,929)**	**-**	3,266	-

28.3.4- 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.

29- 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 2014.

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