Annual Report 2015

كميفك
KMEFIC

stability.
continuity.
endurance.

Contents

كميفك
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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 2015 was characterized by steep market volatility due to a number of moving factors that included an extended slump in commodity prices coupled with concerns over global growth. The year also witnessed the worst quarterly performance since 2011 during Q3-15 as the world lost more than USD 11 Trillion worth of market capitalization owing to a prolonged bear run due to commodities weakness, and China's currency devaluation during August-15. In addition to cautiousness surrounding of a US rate hike.

Oil prices touched historically low levels close to the USD 30/b mark and ended the year with a decline of more than 30% that gave some extra fiscal space for oil importing countries. Oil and commodity indices remain the most battered asset class during 2015 due to an overall weakness in commodity markets across the globe.

Trading across GCC markets declined in 2015. The total value traded on the GCC exchanges declined by almost 33.6% which marks the highest decline in over six years; owing to a fall in trading activities across members due to weaker sentiments over the fall in oil prices during the year.

The Year 2015 was an incredibly tough year for Kuwait and the GCC region. The combined market capitalization of GCC bourses declined 11.4%YoY to USD856.3bn in 2015 from USD954.2bn in 2014. The Saudi bourse, which registered a 7.1%YoY fall in market capitalization, was the biggest contributor to the overall market capitalization (USD420.8bn or 49.1%), followed by the Qatari bourse (USD128bn or 15.0%), and the Abu Dhabi and Dubai bourses (USD186.7bn or 21.8%). The Kuwaiti, Omani, and Bahraini bourses contributed USD120.8bn and together added 14.1% to the total market capitalization of the region.

The year 2015 also marked a landmark year for fiscal consolidation and fiscal reform in the region. Primarily due to multiple countries facing deficits in addition to rate hikes in the United States which forced three GCC countries to raise their rates in response to maintain a USD peg.

The IMF report on Kuwait, issued on November 2015, states that the recent decline in oil prices further highlights current challenges that Kuwait faces. IMF staff developed with the authorities a downside scenario, with oil prices lower by $20 over the five year period. Under this scenario, with substantial buffers that have been built-up throughout the years, a decline in oil prices should not trigger immediate spending cuts, especially in capital expenditure, but it places more urgency on implementing the government's medium-term consolidation plans to contain current spending consistent with intergenerational equity.

Kuwait's current near-term economic outlook is positive, but there are downside risks, due to the slow implementation of public investment priority projects. Bank credit continues to grow, supported by deposit growth. On the strength of public spending in infrastructure and the oil sector, private investment, and consumption; Non-oil GDP growth in Kuwait is expected to accelerate to 4% in 2015, and is projected to further increase gradually to 4.5%–5% in the medium term in the baseline scenario.

Stock Market Performance

The sharp fall in oil prices weighed on investor sentiments shifting very negatively throughout the year. Notably, oil touched its 11 year low during 2015, and went below USD30 per barrel. Saudi Arabia's decision to maintain oil production further invoked a bearish outlook.

2015 started on a positive note for most GCC markets with major markets reporting positive market indicators. However, the start of the major decline in oil prices to in the 2nd quarter of 2015 cause a major shift in trends as markets started tumbling. This effect was most severely felt in August of 2015 where practically all global markets declined sharply spurred on by a large correction in the Chinese market. During the end of the year, budget releases by Qatar and Saudi Arabia designated massive spending cuts by the two countries. These two countries also announced budget deficits in 2016, which led to further dampening of sentiment. Saudi's decision to cut energy subsidies and raise feedstock cost led to a sharp plunge in the country's petrochemical stocks. Most global markets recovered slightly in closing out 2015. GCC markets on the other hand failed to do so and maintained red zone markets with all major markets suffering a double digit YTD loss except Abu Dhabi. All the equity markets in the GCC ended in red zone with Saudi Arabia reporting the steepest decline of 17.1%, followed by Dubai 16.5%, Qatar 15.1%, Bahrain 14.8%, Kuwait 14.1%, and Abu Dhabi 4.9%.

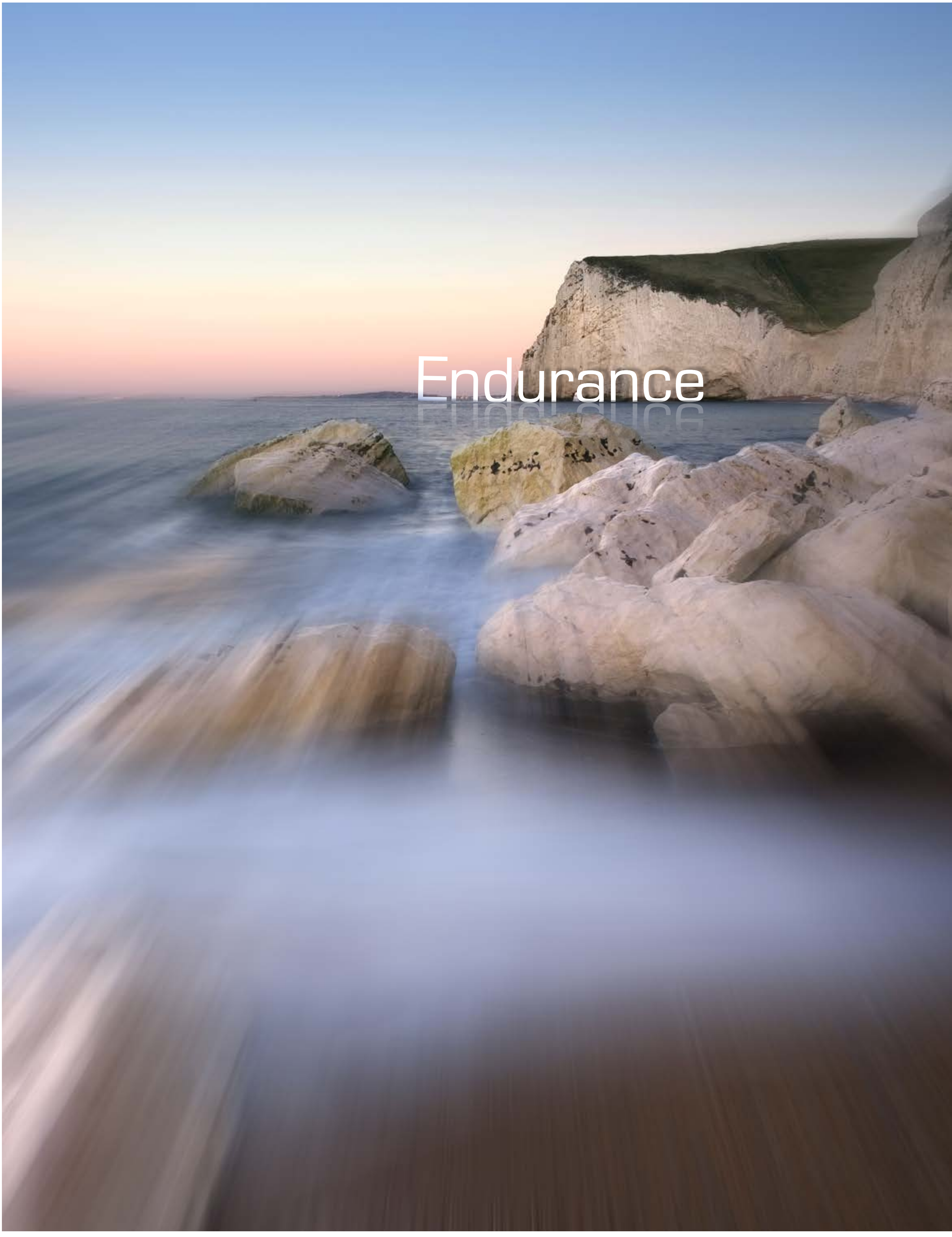
Additionally during 2015 the Capital Market Authority (CMA) continued the issuance of related laws and regulations. The CMA continues its attempt to improve corporate governance and the regulatory structure of financial markets.

Company's performance

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

Despite having very adverse market conditions, the company's total revenue of KD 4.3 million was marginally lower compared to KD 4.4 Million total revenue during the previous year. On expenses side, the company achieved 12% savings by reducing the total expenses to KD 4.28 million from KD 4.86 million in the year before. During the year, the company settled with debtors resulting in gain of KD 2.7 million. Despite the above positive factors, the company took additional provision of KD 3.1 million, impairment provision of KD 2.4 million for brokerage license in


CONTINUITY


Endurance

Chairperson's Message (continued)

Kuwait stock market which significantly affected the company's performance for the year.

The aforementioned factors resulted in the overall decline in the company's profitability and the net loss attributable to its shareholders was (KD 2.4) as compared to a loss of (KD 1.1) million for the year 2014. This translated into basic and diluted loss per share of (9.3 fils) in 2015 compared to basic and diluted loss per share of (4.4 fils) in 2014.

Asset Management

The year end results for the performance of GCC and Kuwaiti shares' strategies of Kuwait & Middle East Financial Investment Company ("KMEFIC") were mixed compared with the global market due to bearish investment environment that stemmed from the continuous fall in oil prices over the year and fluctuations in major global markets in the midst of such various crisis. Despite these facts, the portfolios' managers in the company succeeded to reduce the risks and realize outstanding performance compared with the market indices in the region while following the conservative approach in selecting shares to invest in and diversify the risk.

With respect to the services of local derivatives, the Assets Management team in KMEFIC succeeded to realize consistent performance for the year 2015 despite the negative market performance and the low market liquidity, nevertheless the team continued in its success to realize relatively fixed return over the past six years.

As for the global investments performance, the restructuring of global investments, at the beginning of 2015, and the changes in standards of selecting managers helped in realizing positive returns consistent with the policies followed by portfolios management and the standard indices despite the global market fluctuations over the year in all major regions particularly in China, Europe and USA where the global portfolios succeeded to realize positive returns due to focusing on low risk portfolios and selecting managers able to realize acceptable returns.

KMEFIC and its associates have consistent strategies to provide innovative products and adequate strategies to all local and regional clients. Further, we always hope to provide innovative products, maintain stable assets management and cooperate with our associates and affiliates to realize our common objectives in investment.

Brokerage Performance:

The Brokerage activities are managed primarily from the Online trading platform "Alawsat.com" and by our subsidiary Middle East Financial Brokerage Company "MEFBC-Kuwait". KSE trading volume for 2015 was KD 3.94 BN compared to KD 6.09 BN during 2014. As a result of these declines in market volumes, KMEFIC's commission revenue fell from KD 1.4 Million in the previous year to KD 0.9 Million during the year 2015. The weighted index of Kuwait Stock Exchange dropped -13% and the price index was down by -14% in 2015. Meanwhile, the management remained focused on its strategy of attracting special segment of customers and ensuring diversification between portfolios, funds and individuals. MEFBC is in the process of implementing its Order management system and online trading features to its clients.

Online Services

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

Closing thoughts and outlook

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

We, in KMEFIC, aim to maintain practical investment philosophy and apply an approach targeting the assets of acceptable risks and appropriate gains in order to continue in our efforts to search for the valuable opportunities that realize our clients' objectives. Like 2015, the company will maintain its strategy to liquidate the non-performing long term assets, reduce interest burden, and focus on the profit growth. In the end, I would like to extend my thanks and gratitude to KMEFIC management and its staff for their permanent commitment that supported the company to realize its investment objectives and purposes, and maintain its position as a leading company in investment and assets management in Kuwait. Finally, I would like to extend my appreciation and kind wishes on behalf of the company to our investors and clients for their confidence in KMEFIC and its vision.

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.

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 2015, 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 2015, and their financial performance and their 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. 1 of 2016, and the executive regulations of Law No. 25 of 2012 and by the company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, the executive regulations of Law No. 25 of 2012 or of the company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2015 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 2015, 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

10 February 2016
Kuwait

Consolidated Statement of Financial Position

As at 31 December 2015

	Notes	2015 KD	2014 KD
Assets			
Cash and cash equivalents	3	2,890,052	1,184,728
Term deposits	4	55,825	55,825
Investments	5	8,947,377	16,653,702
Loans and advances	6	4,085,275	6,877,716
Investment in an associate	7	10,458,481	9,742,541
Investment properties	8	-	864,548
Other assets	9	1,421,136	1,541,323
Intangible asset	10	10,150,000	12,500,000
Equipment	11	718,237	798,211
TOTAL ASSETS		38,726,383	50,218,594
LIABILITIES AND EQUITY			
LIABILITIES			
Loans from bank	12	13,752,924	23,291,432
Accounts payable and other liabilities	13	3,561,919	3,542,119
TOTAL LIABILITIES		17,314,843	26,833,551
EQUITY			
Share capital	14	26,381,499	26,381,499
Reserves	15	(5,565,899)	(3,609,904)
		20,815,600	22,771,595
Treasury shares	16	(1,174,880)	(1,174,880)
Equity attributable to shareholders of the company		19,640,720	21,596,715
Non-controlling interest	17	1,770,820	1,788,328
TOTAL EQUITY		21,411,540	23,385,043
TOTAL LIABILITIES AND EQUITY		38,726,383	50,218,594

Jehad Saud Al Humaidhi
Chairperson

Hamed Hamad Al Sanee
Vice Chairman & CEO

The attached notes 1 to 28 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss

For the year ended 31 December 2015

	Notes	2015 KD	2014 KD
Continuing operations			
Income			
Management fees	22	1,745,286	2,009,226
Interest income	18	31,038	43,578
Commission income		943,901	1,375,886
Gain from sale of investment properties	8	1,033,822	-
(Loss) gain on investments		(274,376)	259,431
Dividend income		180,911	397,909
Share of results from an associate	7	520,375	178,080
Foreign exchange gain		157,518	168,565
Other income		4,360	16,184
Total income		4,342,835	4,448,859
Expenses			
Staff expenses		2,354,847	2,576,645
Other operating expenses		1,194,664	1,187,767
Depreciation	8 & 11	182,830	387,979
Interest expense		547,678	708,544
Total expenses		4,280,019	4,860,935
Operating profit (loss) before provisions and impairment losses		62,816	(412,076)
Provisions and impairment losses	19	(2,832,891)	(750,852)
Loss for the year from continuing operations		(2,770,075)	(1,162,928)
Discontinued operations			
Profit for the year from discontinued operations		-	67,239
LOSS FOR THE YEAR		(2,770,075)	(1,095,689)
Attributable to			
Shareholders of the company		(2,421,022)	(1,094,410)
Non-controlling interest		(349,053)	(1,279)
		(2,770,075)	(1,095,689)
BASIC AND DILUTED LOSS PER SHARE (FILS)	20	(9.3)	(4.2)
BASIC AND DILUTED LOSS PER SHARE FROM CONTINUING OPERATIONS (FILS)	20	(9.3)	(4.4)

The attached notes 1 to 28 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	Note	2015 KD	2014 KD
Loss for the year		**(2,770,075)**	(1,095,689)
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**359,724**	355,369
Loss on hedge of net investments	12	**(135,929)**	(163,993)
Changes in fair value of investments available for sale		**204,049**	(833,018)
Net realised loss (gain) transferred to consolidated statement of profit or loss on disposal of investments available for sale:		**29,983**	(168,506)
Other comprehensive income (loss) for the year		**457,827**	(810,148)
Total comprehensive loss for the year		**(2,312,248)**	(1,905,837)
Attributable to			
Shareholders of the company		**(1,955,995)**	(1,891,081)
Non-controlling interest		**(356,253)**	(14,756)
		(2,312,248)	(1,905,837)

The attached notes 1 to 28 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 KD	2014 KD
Operating activities			
Loss for the year from continuing operations		(2,770,075)	(1,162,928)
Profit for the year from discontinued operations	12	-	67,239
Loss for the year		(2,770,075)	(1,095,689)
Adjustments for:			
Interest income		(31,038)	(43,578)
Loss (gain) on disposal of investments available for sale		29,983	(168,506)
Dividend income		(180,911)	(397,909)
Share of results from an associate	7	(520,375)	(178,080)
Depreciation	8 & 11	182,830	387,979
Interest expense		547,678	708,544
Gain on sale of investment properties		(1,033,822)	-
Provisions and impairment losses	19	2,832,891	750,852
Gain from sale of subsidiaries		-	(25,620)
Reversal of provision on discontinued operations		-	(53,302)
Operating loss before changes in operating assets and liabilities		(942,839)	(115,309)
Investments at fair value through statement of profit or loss		535,190	(48,045)
Loans and advances		25,028	(85,213)
Other assets		2,816,544	617,445
Accounts payable and other liabilities		(329,008)	147,026
Interest income received		32,839	43,714
Net cash flows from operating activities		2,137,754	559,618
Investing activities			
Term deposits placed		-	(5,075)
Purchase of investments available for sale		(80,602)	(1,415,867)
Proceeds from disposal of investments available for sale		7,633,016	1,552,064
Net purchase of equipment	11	(68,530)	(65,820)
Dividend income received		180,911	451,349
Dividend received from an associate		-	427,318
Proceeds from sale of investment properties – net of expenses		1,893,719	-
Proceeds from sale of subsidiary		-	90,003
Net cash flows from investing activities		9,558,514	1,033,972
Financing activities			
Repayment of loans from bank		(9,674,437)	(907,315)
Ownership changes in subsidiary	2.4	338,745	(32,654)
Interest expense paid		(655,252)	(699,625)
Net cash flows used in financing activities		(9,990,944)	(1,639,594)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT		1,705,324	(46,004)
Cash and cash equivalent at beginning of the year		1,184,728	1,230,732
CASH AND CASH EQUIVALENT AT END OF THE YEAR	3	2,890,052	1,184,728

The attached notes 1 to 28 form part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2015

	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 2015	26,381,499	-	-	-	(5,121,415)
Loss for the year	-	-	-	-	(2,421,022)
Other comprehensive income (loss) for the year	-	-	-	-	-
Total comprehensive (loss) income for the year	-	-	-	-	(2,421,022)
Ownership changes in a subsidiary during the year (Note 2.4)	-	-	-	-	-
Balance at 31 December 2015	**26,381,499**	**-**	**-**	**-**	**(7,542,437)**
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	-	(1,157,687)	(6,707,958)	(6,379,860)	14,245,505
Ownership changes in a subsidiary during the year (Note 2.4)	-	-	-	-	-
Balance at 31 December 2014	**26,381,499**	**-**	**-**	**-**	**(5,121,415)**

The attached notes 1 to 28 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
(611,380)	80,631	2,042,260	(3,609,904)	(1,174,880)	1,788,328	23,385,043
-	-	-	(2,421,022)	-	(349,053)	(2,770,075)
241,232	223,795	-	465,027	-	(7,200)	457,827
241,232	223,795	-	(1,955,995)	-	(356,253)	(2,312,248)
-	-	-	-	-	338,745	338,745
(370,148)	**304,426**	**2,042,260**	**(5,565,899)**	**(1,174,880)**	**1,770,820**	**21,411,540**
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**

Notes to the Consolidated Financial Statements

At 31 December 2015

1- INCORPORATION AND ACTIVITIES

Kuwait and Middle East Financial Investment Company K.S.C.P. (the "company") is a Kuwaiti shareholding company incorporated on 1 January 1984. The company and its subsidiaries (collectively, the "group") are engaged in carrying out financial investment activities in various economic sectors inside and outside the State of Kuwait directly or by contributing to the existing companies in the same activities through establishing subsidiaries or by participating with others in the establishment of specialized companies or by buying shares of these companies, portfolio management, investing and developing funds for its own account or for clients locally and internationally, trading of securities, issuance and managing securities, issuance of various types of bonds to third parties or otherwise, to exercise all types of brokerage activities, to do financing locally and internationally, acceptance and management of credit contracts and conducting studies, research and providing financial advices, according to the articles of association of the company. The address of the company's registered office is P.O. Box 819, Safat 13009, Kuwait.

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

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

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 November 2012, the executive regulation of Law No. 25 of 2012 will continue until a new set of executive regulation is issued.

The consolidated financial statements of the group for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 10 February 2016. The shareholders of the company have the power to amend these consolidated financial statements at the annual general meeting.

2- SIGNIFICANT ACCOUNTING POLICIES

2.1- Basis of preparation

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

These consolidated financial statements are prepared under the historical cost convention 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.

2.2- Changes in accounting policies

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

The accounting policies are consistent with those used in the previous year except for the adoption of amended IFRS that have become effective for annual periods beginning on or after 1 July 2014 and those which are applicable to the group:

IFRS 3 Business Combinations (Amendment)

The amendment is applied prospectively for annual periods beginning on or after 1 January 2015 and clarify that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the group's current accounting policy and, thus, this amendment did not impact the group's accounting policy.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2015

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2- Changes in accounting policies (continued)

IFRS 8 Operating Segments (Amendment)

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2015 and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The group has not applied the aggregation criteria and, thus, this amendment did not impact the group's accounting policy.

IAS 24 Related Party Disclosures (Amendment)

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the group as it does not receive any material management services from other entities.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The group does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property (Amendment)

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2015 did not have any material impact on the accounting policies, financial position or performance of the group.

2.3- New standards and interpretations issued but not yet effective

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

IFRS 9: Financial Instruments: Classification and Measurement

The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of 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.

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The application of IFRS 16 is not expected to have any material impact on the financial position or performance of the group

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Annual Improvements to IFRSs 2012-2014 Cycle

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

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

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

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

The Management of the company do not anticipate that the application of these amendments will have a material effect on the group's consolidated financial statements.

2.4- Summary of significant accounting policies

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiaries including special purpose entities. Specifically, the group controls an investee if and only if the group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee.

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary 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.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2015

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4- Summary of significant accounting policies (continued)

Basis of consolidation (continued)

The subsidiaries of the group are as follows:

Name of the Subsidiaries	Country of incorporation	Principal activity	Percentage of holding 2015	2014
Al Awsat First Holding Company K.S.C.C.*	Kuwait	Investment	**97%**	97%
Middle East Financial Brokerage Company K.S.C. ('MEFBC')	Kuwait	Brokerage	**90%**	90%
Gulf Gate Fund ("the Fund")	Kuwait	Fund	**82%**	94%

*Residual interest in the subsidiary is held through nominees.

During the year, the group's ownership in the Fund decreased by 12% (2014: increase by 2%) due to net additional subscriptions in the Fund amounting to KD 338,745 (2014: net redemption in the Fund amounting to KD 32,654).

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank, cash with brokers and short-term deposits with original maturities of three months or less.

Financial assets and liabilities

Financial assets and financial liabilities are classified as "investments at fair value through statement of 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 profit or loss or loans and receivables and held to maturity.

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

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4- Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

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

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2015

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4- Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Recognition and de-recognition

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

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

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

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

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

Offsetting

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

Impairment of financial assets

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

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

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.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4- Summary of significant accounting policies (continued)

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 profit or loss. 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 profit or loss.

Hedge of net investments in foreign operations

Hedges of net investment in foreign operations 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 other comprehensive income while any gains or losses relating to the ineffective portion are recognised in consolidated statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in consolidated statement of other comprehensive income is transferred to consolidated statement of profit or loss.

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

Investment in associates

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2015

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4- Summary of significant accounting policies (continued)

Investment properties

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

Investment properties are measured at cost less accumulated depreciation (based on an estimated useful life of 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.

Equipment

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

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

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

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

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

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

Fair value measurement of non–financial assets

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

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

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4- Summary of significant accounting policies (continued)

Provision for impairment of non-financial assets

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

Borrowing costs

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

Provisions

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

Employees' end of service indemnity

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

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 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.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2015

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4- Summary of significant accounting policies (continued)

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.

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.

2.5- Significant accounting judgments, estimates and assumptions

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.

2- SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5- Significant accounting judgments, estimates and assumptions (continued)

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

	2015 KD	2014 KD
Cash on hand	**2,100**	2,100
Cash at banks	**2,887,952**	1,182,628
	2,890,052	1,184,728

Certain balances included in cash at banks are placed with related parties (Note 21).

4- TERM DEPOSITS

Term deposits are held with commercial banks in the region, for a period of one year, at interest rate of 1.25% (2014: 1.25%) per annum.

5- INVESTMENTS

	2015 KD	2014 KD
Investments at fair value through statement of profit or loss		
Financial assets held for trading:		
Quoted equity securities	**1,338,535**	1,861,022
Managed funds	**216,384**	229,087
	1,554,919	2,090,109
Investments available for sale		
Quoted equity securities	**1,077,035**	2,183,731
Unquoted equity securities	**238,809**	2,981,781
Funds	**6,076,614**	9,398,081
	7,392,458	14,563,593
	8,947,377	16,653,702

During the year, certain unquoted equity securities were sold to the Parent Company for a total consideration of KD 3,228,800.

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 2015 was KD 3,081,320 (2014: KD 6,400,526). The group has recorded unrealised loss of KD 33,373 (2014: unrealised loss of KD 133,734) in respect of the reclassified investments in fair valuation reserve within equity during the year. Had the group not adopted the amendments to IAS 39, this unrealised loss would have been recorded in the consolidated statement of profit or loss.

Certain investments available for sale amounting to KD 4.5 million (2014: KD 8.5 million) are pledged as security against the loan (Note 12).

Notes to the Consolidated Financial Statements (continued)

At 31 December 2015

6- LOANS AND ADVANCES

	2015 KD	2014 KD
Loans to customers	**7,827,379**	7,821,297
Loans to staff	**19,547**	573,549
	7,846,926	8,394,846
Less: General provision	**(3,387)**	(8,866)
Less: Specific provision	**(3,758,264)**	(1,508,264)
	4,085,275	6,877,716

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

	2015 KD	2014 KD
At 1 January	**1,517,130**	16,278
Movement in provision	**2,244,521**	1,500,852
	3,761,651	1,517,130

Loans to customers include a loan amounting to KD 7,500,000 to a debtor who is 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.

7- INVESTMENT IN AN ASSOCIATE

The company has 30% (2014: 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:

	2015 KD	2014 KD
Share of associate's assets and liabilities		
Current assets	**3,762,712**	3,781,768
Non-current assets	**7,164,726**	6,438,028
Current liabilities	**(403,048)**	(288,466)
Non-current liabilities	**(65,909)**	(188,789)
Net assets	**10,458,481**	9,742,541
Share of associate's income and results		
Operating income	**1,834,920**	2,281,526
Profit for the year	**520,375**	178,080

Subsequent to the year end, the investment in an associate was sold to the parent company for a total consideration of KD 10,612,800.

8- INVESTMENT PROPERTIES

During the year, all 4 units of investment properties in a commercial complex were sold at gain that has been recognised in the consolidated statement of profit or loss. Out of these 2 units were sold to the parent company for a total consideration of KD 951,918.

Depreciation charged during the year is KD 4,650 (2014: KD 22,608).

9- OTHER ASSETS

	2015 KD	2014 KD
Dues from unsettled trades	**271,727**	334,636
Accrued management fee	**422,285**	401,985
Receivable from disposal of investments	**50,536**	4,066,071
Prepaid expenses	**82,558**	133,373
KSE Broker deposit	**250,000**	250,000
Others	**344,030**	332,965
	1,421,136	5,519,030
Less: Provision for doubtful receivables	**-**	(3,977,707)
	1,421,136	1,541,323

During the year, the company received proceeds from settlement against old receivable from disposal of investments, which was fully provided resulting in a write back of provision to the extent of KD 2,650,000 (Note 19). The remaining provision for doubtful receivables of KD 1,327,707 has been utilized to write-off the underlying receivables during the year.

10- INTANGIBLE ASSET

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

Impairment testing

The group determines whether brokerage 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.

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

Terminal growth beyond the five year period has been based extrapolating using a growth rate which does not exceed the long term average growth rate of Kuwait. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. A discount rate of 9% to 10% (2014: 8% to 9%) and terminal growth rate of 3% to 4% (2014: 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.

As a result of above analysis, an impairment loss on brokerage license of KD 2,350,000 (2014: Nil) (Note 19) has been charged during the year to reduce carrying value to its recoverable value.

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11- EQUIPMENT

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

	Furniture and equipment KD	Computers KD	Software KD	Capital work in progress KD	Total KD
Cost					
At 1 January 2014	1,752,301	1,319,315	1,826,227	55,086	4,952,929
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	1,656,585	1,288,375	1,876,070	18,151	4,839,181
Accumulated depreciation					
At 1 January 2014	1,721,173	1,085,315	1,048,643	-	3,855,131
Depreciation	14,342	212,939	138,090	-	365,371
Disposals	(6,704)	-	-	-	(6,704)
Relating to subsidiary sold	(98,485)	(40,676)	(33,667)	-	(172,828)
At 31 December 2014	1,630,326	1,257,578	1,153,066	-	4,040,970
Net book value at 31 December 2014	26,259	30,797	723,004	18,151	798,211

12- LOANS FROM BANK

Loans from bank represents secured loans from the parent company, secured by mortgaging assets of the company comprising shares of investment in subsidiaries (Note 2.4), certain investments available for sale (Note 5), loans and advances (Note 6) and investment in an associate (Note 7). The loans were carried at effective interest rate of 3% (2014: 3%) per annum.

Hedge of net investments in foreign operations

Loan from bank denominated in foreign currency USD was designated as a hedge of the net investments in foreign operations (Note 7).

During the year, loan has been repaid which was used to hedge the group's exposure to foreign exchange risk on these investments. Gains or losses on the retranslation of loans from bank are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in foreign operations. Foreign exchange loss arising on translation of the hedging instruments (loans) amounting KD 135,929 (2014: loss of KD 163,993) were taken directly to other comprehensive income.

13- ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2015 KD	2014 KD
End of service benefit	**1,399,018**	1,875,732
Other staff payables	**244,734**	281,737
Loan interest payable	**67,823**	175,397
Brokerage payables	**35,577**	46,203
Others	**1,814,767**	1,163,050
	3,561,919	3,542,119

14- SHARE CAPITAL

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

	2015 KD	2014 KD
Authorised: 263,814,991 (2014: 265,454,991) shares of 100 fils each	**26,381,499**	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 (2014: 15,837,638 shares amounting to KD 1,583,764) on account of share option plan for employees.

15- RESERVES

Share premium

The share premium represents premiums collected upon issuing new shares to employees under the Employee Stock Option Plan. The balance of share premium is 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.

Treasury shares reserve

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

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16- TREASURY SHARES

	2015 KD	2014 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)	**69,523**	125,928
Weighted average market value per treasury share (fils)	**32.6**	51.5

Treasury shares are not entitled to any cash dividends and are not pledged. An amount equivalent to the cost of purchase of treasury shares (unpledged) have been earmarked as non-distributable throughout the holding period of treasury shares.

17- 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	
	2015 KD	2014 KD	2015 KD	2014 KD	2015 KD	2014 KD
Middle East Financial Brokerage Co (MEFBC)	**10%**	10%	**(269,181)**	(15,189)	**1,342,285**	1,618,685
Gulf Gate Fund (The Fund)	**18%**	6%	**(79,872)**	13,910	**428,535**	169,643
Total			**(349,053)**	(1,279)	**1,770,820**	1,788,328

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.

	2015		2014	
	MEFBC KD	The Fund KD	MEFBC KD	The Fund KD
Total assets	**13,695,464**	**2,358,615**	16,648,168	2,918,494
Total liabilities	**251,768**	**11,520**	272,887	14,256
Total income	**340,799**	**(95,230)**	772,953	304,235
Total expenses	**(3,032,610)**	**(51,004)**	(924,843)	(66,099)
Total (loss) profit for the year	**(2,691,811)**	**(146,234)**	(151,890)	238,136
Net (decrease) increase in operating activities	**(203,733)**	**386,728**	(271,289)	184,687
Net (decrease) increase in investing activities	**194,238**	**-**	(321,689)	-
Net increase (decrease) in financing activities	**-**	**(410,909)**	-	467,337
Net (decrease) increase in cash and cash equivalents	**(9,495)**	**(24,181)**	(592,978)	652,024

18- INTEREST INCOME

	2015 KD	2014 KD
Term deposits and bank balances	**9,542**	7,853
Loans and advances	**21,496**	35,725
	31,038	43,578

19- PROVISIONS AND IMPAIRMENT LOSSES

	2015 KD	2014 KD
Net provision on loans and advances and claims	**3,098,004**	750,852
Impairment loss on intangible asset (Note 10)	**2,350,000**	-
Impairment loss on investments available for sale	**34,887**	-
Reversal of provision on other assets (Note 9)	**(2,650,000)**	-
	2,832,891	750,852

20- BASIC AND DILUTED LOSS PER SHARE

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

	2015 KD	2014 KD
Loss for the year attributable to the shareholders of the company (KD)	**(2,421,022)**	(1,094,410)
Weighted average number of shares outstanding during the year	**261,191,491**	261,191,491
Basic and diluted loss per share (fils)	**(9.3)**	(4.2)

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

	2015 KD	2014 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 per share from continuing operations

	2015 KD	2014 KD
Loss for the year from continuing operations attributable to the shareholders of the company (KD)	**(2,421,022)**	(1,161,649)
Weighted average number of shares outstanding during the year	**261,191,491**	261,191,491
Basic and diluted loss per share from continuing operations (fils)	**(9.3)**	(4.4)

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21- RELATED PARTY TRANSACTIONS

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

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

	2015 KD	2014 KD
Related party balances		
Cash placed with the parent company (Note 3)	2,055,766	366,851
Investments	4,747,882	8,149,455
Receivable from the parent company	10,316	27,367
Receivable from other related parties	264,674	248,836
Loans and advances to key management personnel	-	506,245
Loans taken from the parent company (Note 12)	13,752,924	23,291,432
Guarantees taken from the parent company	500	500
Investments and funds managed in a fiduciary capacity	18,315,566	27,710,241
Related party transactions		
Management fees earned	32,666	71,942
Interest income	10,432	21,587
Income from investment properties sold to parent company (Note 8)	529,206	-
Gain from available for sale investments sold to parent company (Note 5)	880,774	-
Net loss from sale of investments in managed funds	(906,767)	-
Interest expense on loans taken from the parent company	(547,678)	(708,544)
Key management compensation		
Salaries and other short term benefits	(650,688)	(665,504)

22- COMMITMENTS AND CONTINGENT LIABILITIES

	2015 KD	2014 KD
Commitments		
Uncalled capital contributions relating to investments available for sale	48,527	46,820
Contingent liabilities		
Guarantees	251,250	251,250

Guarantees issued by the group noted above exclude a guarantee of KD 46.36 million (2014: KD 44.73 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.

23- FIDUCIARY ASSETS

Fiduciary assets comprise investments and funds managed by the company on behalf of clients. These are not assets of the company and accordingly are not included in the consolidated financial statements. As at 31 December 2015, total fiduciary assets managed by the company amounted to KD 455 million (2014: KD 524 million). Management fee of KD 1,745,286 (2014: KD 2,009,226) has been recognised by the company for management of fiduciary assets.

24- MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for investments, 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	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	KD	KD	**KD**	KD	**KD**	KD	**KD**	KD	**KD**	KD
Assets										
Cash and cash equivalents	**2,890,052**	1,184,728	**-**	-	**-**	-	**-**	-	**2,890,052**	1,184,728
Term deposits	**55,825**	55,825	**-**	-	**-**	-	**-**	-	**55,825**	55,825
Investments	**2,989,912**	7,317,610	**1,091,474**	1,643,373	**546,871**	556,398	**4,319,120**	7,136,321	**8,947,377**	16,653,702
Loans and advances	**-**	109,102	**42,372**	-	**4,042,903**	6,768,614	**-**	-	**4,085,275**	6,877,716
Investment in an associate	**-**	-	**-**	-	**-**	-	**10,458,481**	9,742,541	**10,458,481**	9,742,541
Investment properties	**-**	-	**-**	-	**-**	864,548	**-**	-	**-**	864,548
Other assets	**500,035**	565,604	**267,522**	276,203	**293,044**	328,736	**360,535**	370,780	**1,421,136**	1,541,323
Intangible assets	**-**	-	**-**	-	**-**	-	**10,150,000**	12,500,000	**10,150,000**	12,500,000
Equipment	**-**	-	**-**	-	**-**	-	**718,237**	798,211	**718,237**	798,211
	6,435,824	9,232,869	**1,401,368**	1,919,576	**4,882,818**	8,518,296	**26,006,373**	30,547,853	**38,726,383**	50,218,594
Liabilities										
Loans from bank*	**-**	-	**13,752,924**	23,291,432	**-**	-	**-**	-	**13,752,924**	23,291,432
Accounts payable and other liabilities	**76,468**	222,351	**129,741**	-	**469,792**	508,327	**2,885,918**	2,811,441	**3,561,919**	3,542,119
	76,468	222,351	**13,882,665**	23,291,432	**469,792**	508,327	**2,885,918**	2,811,441	**17,314,843**	26,833,551
Net liquidity gap	**6,359,356**	9,010,518	**(12,481,297)**	(21,371,856)	**4,413,026**	8,009,969	**23,120,455**	27,736,412	**21,411,540**	23,385,043

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

25- SEGMENT INFORMATION

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

- Asset management: engaged in providing third party fund and portfolio management services on a fiduciary basis.
- Brokerage and online trading: engaged in on-line and brokerage services across Middle East and North Africa (MENA) and United States of America (USA) based stock exchanges.
- Credit operations: engaged in providing margin loans to the clients trading in 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.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2015

25- SEGMENT INFORMATION (continued)

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

	Asset management KD	Brokerage & online trading KD	Credit operations KD	Investment & treasury KD	Total KD
2015					
Segment revenue	**1,642,103**	**943,901**	**30,222**	**1,726,609**	**4,342,835**
Segment expenses	**(1,161,439)**	**(1,359,752)**	**(7,719)**	**(1,751,109)**	**(4,280,019)**
Provisions and impairment losses	**(853,483)**	**(2,350,000)**	**(2,244,521)**	**2,615,113**	**(2,832,891)**
Segment results - continuing operations	**(372,819)**	**(2,765,851)**	**(2,222,018)**	**2,590,613**	**(2,770,075)**
Segment assets	**2,266,039**	**10,922,612**	**4,303,855**	**21,233,877**	**38,726,383**
Segment liabilities	**(684,054)**	**(335,182)**	**(4,000,000)**	**(12,295,607)**	**(17,314,843)**
	1,581,985	**10,587,430**	**303,855**	**8,938,270**	**21,411,540**
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 and impairment losses	-	-	(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

26- FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	Level: 1 KD	Level: 2 KD	Level: 3 KD	Total KD
2015				
Investments at fair value through profit or loss				
Quoted equity securities and managed funds	**1,338,535**	**216,384**	**-**	**1,554,919**
Investments available for sale				
Equity securities	**1,077,035**	**-**	**238,809**	**1,315,844**
Funds	**1,651,376**	**4,425,238**	**-**	**6,076,614**
	2,728,411	**4,425,238**	**238,809**	**7,392,458**
2014				
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

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

26- 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 recent sale transaction. Fair values of unquoted funds are measured based on their latest net asset values provided by the respective fund manager.

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

Level 3 fair value measurements

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

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

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

	2015 KD	2014 KD
At 1 January	2,981,781	-
Transfer from Level 2	-	3,385,763
Net realised gain recognized in statement of profit or loss and other comprehensive income	(887,256)	-
Cost of investments sold	(2,381,379)	-
Change in fair value	525,663	(403,982)
At 31 December	238,809	2,981,781

27- RISK MANAGEMENT

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

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

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

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

All aspects of the group's financial risk management objectives and policies are consistent with those disclosed in the annual consolidated financial statements for the year ended 31 December 2014.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2015

27- RISK MANAGEMENT (continued)

27.1- Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group is exposed to credit risk on bank balances, term deposits, loans and advances and other outstanding receivables. The maximum exposure to credit risk is the carrying amount as at the reporting date.

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

Gross maximum exposure to credit risk

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

	2015 KD	2014 KD
Cash at banks	**2,887,952**	1,182,628
Term deposits	**55,825**	55,825
Loans and advances	**4,085,275**	6,877,716
Other assets (excluding prepaid expenses)	**1,338,578**	1,407,950
Gross maximum credit risk exposure	**8,367,630**	9,524,119

The maximum credit exposure to any single client or counterparty was KD 3,750,000 (2014: KD 6,000,000) 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 10,190,560 (2014: KD 12,051,893).

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.

27- RISK MANAGEMENT (continued)

27.1- 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	
	2015	2014	**2015**	2014
	KD	KD	**KD**	KD
Geographic region:				
Kuwait	**7,560,862**	8,597,217	**251,250**	251,250
Other Middle East*	**806,768**	926,902	**-**	-
Rest of the World	**-**	-	**48,527**	46,820
	8,367,630	9,524,119	**299,777**	298,070

*Other Middle East countries includes GCC countries excluding Kuwait.

	Assets		Contingent liabilities and commitments	
Industry sector:				
Banks and financial institutions	**8,328,865**	8,606,178	**250,000**	250,000
Other	**38,765**	917,941	**49,777**	48,070
	8,367,630	9,524,119	**299,777**	298,070

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 2015, other assets, and loans and advances exposed to credit risk of KD 7,508,264 (2014: KD 11,485,971) were impaired against which the group carries a provision of KD 3,758,264 (2014: KD 5,485,971).

27.2- Liquidity risk

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2015

27- RISK MANAGEMENT (continued)

27.2- 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	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Financial liabilities	**KD**	KD	**KD**	KD	**KD**	KD	**KD**	KD	**KD**	KD
Loans from banks	**35,042**	59,345	**13,784,575**	23,410,498	**-**	-	**-**	-	**13,819,617**	23,469,843
Accounts payable and other liabilities	**76,468**	222,351	**129,741**	-	**469,792**	508,327	**2,885,918**	2,811,441	**3,561,919**	3,542,119
Total undiscounted financial liabilities	**111,510**	281,696	**13,914,316**	23,410,498	**469,792**	508,327	**2,885,918**	2,811,441	**17,381,536**	27,011,962
Contingent liabilities and commitments	**750**	750	**-**	-	**250,500**	250,500	**48,527**	46,820	**299,777**	298,070

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

27.3- Market risk

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

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

27.3.1- Interest rate risk

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

The group is exposed to interest rate risk on its interest bearing assets and liabilities which include 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	Effect on income statement	
	2015	2014
	KD	KD
Kuwaiti Dinar	**(24,809)**	(30,252)
US Dollar	**639**	(10,782)

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

27- RISK MANAGEMENT (continued)

27.3- Market risk (continued)

27.3.2- Equity price risk

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

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

		2015		2014	
Market indices	**Increase in equity price %**	**Effect on income statement KD**	**Effect on equity KD**	Effect on income statement KD	Effect on equity KD
Kuwait Index	5%	**8,518**	**77,500**	8,812	289,058
Other GCC Indices	5%	**57,646**	**-**	83,259	27,714

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

27.3.3- Foreign currency risk

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

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

Net assets denominated in foreign currencies

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

Currency	**2015 KD**	2014 KD
US Dollar	**1,871,203**	(2,659,938)
GCC currencies	**12,458,959**	14,018,893
Other currencies	**17,417**	98,568
	14,347,579	11,457,523

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:

		2015		2014	
Currency	**Decrease in currency rate**	**Effect on income statement KD**	**Effect on equity KD**	Effect on income statement KD	Effect on equity KD
US Dollars	5%	**(13,351)**	**(80,209)**	(11,006)	144,003
GCC currencies	5%	**(100,024)**	**(522,924)**	(126,831)	(574,113)
Other currencies	5%	**(871)**	**-**	(4,929)	-

27.3.4- Prepayment risk

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

Notes to the Consolidated Financial Statements (continued)

At 31 December 2015

28- CAPITAL MANAGEMENT

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the year ended 31 December 2015.

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.