

Interim condensed consolidated financial information and review report

**Kuwait Financial Centre – KPSC and Subsidiaries**

**Kuwait**

30 June 2017 (Unaudited)

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## Report on review of interim condensed consolidated financial information

To the Board of Directors of  
Kuwait Financial Centre – KPSC  
Kuwait

### *Introduction*

We have reviewed the accompanying interim condensed consolidated statement of financial position of Kuwait Financial Centre – KPSC (“the parent company”) and its subsidiaries (“the group”) as at 30 June 2017 and the related interim condensed consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the three month and six month period then ended. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of preparation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.

### **Report on review of other legal and regulatory requirements**

Based on our review, the interim condensed consolidated financial information is in agreement with the books of the parent company. We further report that, to the best of our knowledge and belief, no violation of the Companies Law No. 1 of 2016 and the Executive Regulations, or of the Parent Company’s Memorandum of Incorporation and Articles of Association of the parent company or 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 provision of Law No.7 of 2010, concerning the Capital Markets Authority and its related executive regulations have occurred during the six month period ended 30 June 2017 that might have had a material effect on the business or financial position of the parent company.

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## Interim condensed consolidated statement of profit or loss

	Notes	Three months ended		Six months ended	
		30 June 2017 (Unaudited) KD '000	30 June 2016 (Unaudited) KD '000	30 June 2017 (Unaudited) KD '000	30 June 2016 (Unaudited) KD '000
<b>Revenue</b>					
Interest income		371	164	554	346
Dividend income		299	273	734	600
Management fees and commission		1,723	2,329	3,174	3,817
Gain/(loss) from investments at fair value through profit or loss	6	363	(289)	2,111	(1,742)
Gain on redemption/sale of available for sale investments		524	1,143	1,321	1,159
Gain on liquidation of subsidiary	5.1	-	-	43	-
Share of results of associate and joint venture		(29)	(186)	(43)	(170)
(Loss)/gain on sale of investment properties	11	(174)	356	(363)	489
Net rental income		94	44	261	65
Foreign currency exchange (loss)/gain		(20)	115	(79)	154
Other income		1	15	1	15
		<b>3,152</b>	<b>3,964</b>	<b>7,714</b>	<b>4,733</b>
<b>Expenses and other charges</b>					
General and administrative expenses		(1,961)	(2,019)	(3,897)	(3,491)
Impairment of available for sale investments	10	(42)	(37)	(57)	(46)
(Charge) / reversal of provisions		(2)	-	(2)	3
Other expenses		23	(27)	11	(42)
Finance costs		(387)	(312)	(742)	(619)
		<b>(2,369)</b>	<b>(2,395)</b>	<b>(4,687)</b>	<b>(4,195)</b>
<b>Profit before provisions for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Zakat</b>					
		<b>783</b>	<b>1,569</b>	<b>3,027</b>	<b>538</b>
Provision for contribution to KFAS		(6)	(8)	(27)	(8)
Provision for NLST		(21)	(23)	(80)	(23)
Provision for Zakat		(9)	(9)	(32)	(9)
<b>Profit for the period</b>		<b>747</b>	<b>1,529</b>	<b>2,888</b>	<b>498</b>
<b>Profit/(loss) for the period attributable to:</b>					
Owners of the parent company		725	1,493	2,915	810
Non-controlling interests		22	36	(27)	(312)
<b>Profit for the period</b>		<b>747</b>	<b>1,529</b>	<b>2,888</b>	<b>498</b>
<b>Basic and diluted earnings per share attributable to the owners of the parent company</b>					
	7	<b>1 Fils</b>	<b>3 Fils</b>	<b>6 Fils</b>	<b>2 Fils</b>

The notes set out on pages 8 to 22 form an integral part of this interim condensed consolidated financial information.

## Interim condensed consolidated statement of profit or loss and other comprehensive income

	Three months ended		Six months ended	
	30 June 2017 (Unaudited) KD '000	30 June 2016 (Unaudited) KD '000	30 June 2017 (Unaudited) KD '000	30 June 2016 (Unaudited) KD '000
Profit for the period	747	1,529	2,888	498
<b>Other comprehensive loss:</b> <i>Items that will be reclassified subsequently to statement of profit or loss</i>				
<i>Available for sale investments:</i>				
- Net change in fair value arising during the period	51	(221)	972	(1,017)
- Transferred to interim condensed consolidated statement of profit or loss on redemption/sale	(524)	(1,143)	(1,321)	(1,159)
- Transferred to interim condensed consolidated statement of profit or loss on impairment	42	37	57	46
<i>Foreign currency translation:</i>				
- Exchange differences arising on translation of foreign operations	(216)	(53)	(324)	(227)
Share of other comprehensive (loss)/income of associate and joint venture	(16)	1	(19)	(2)
Total other comprehensive loss	(663)	(1,379)	(635)	(2,359)
<b>Total comprehensive income/(loss) for the period</b>	<b>84</b>	<b>150</b>	<b>2,253</b>	<b>(1,861)</b>
<b>Total comprehensive income/(loss) attributable to:</b>				
Owners of the parent company	75	113	2,286	(1,521)
Non-controlling interests	9	37	(33)	(340)
	<b>84</b>	<b>150</b>	<b>2,253</b>	<b>(1,861)</b>

*The notes set out on pages 8 to 22 form an integral part of this interim condensed consolidated financial information.*

## Interim condensed consolidated statement of financial position

	Notes	30 June 2017 (Unaudited) KD '000	31 Dec. 2016 (Audited) KD '000	30 June 2016 (Unaudited) KD '000
<b>Assets</b>				
Cash and bank balances	8	7,964	12,237	9,552
Time deposits	8	1,437	9,857	5,036
Investments at fair value through profit or loss	9	47,764	48,033	39,664
Accounts receivable and other assets		6,793	5,317	5,049
Loans to customers		286	253	434
Available for sale investments	10	53,645	41,870	49,292
Investment in associate and joint venture		3,077	3,002	2,866
Investment properties	11	38,310	35,745	31,513
Equipment		428	434	380
<b>Total assets</b>		<b>159,704</b>	<b>156,748</b>	<b>143,786</b>
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Due to banks and other financial institutions	8	1,120	-	-
Accounts payable and other liabilities		7,483	8,327	5,982
Bank borrowings	12	12,738	8,146	7,834
Bonds issued		25,000	25,000	22,000
<b>Total liabilities</b>		<b>46,341</b>	<b>41,473</b>	<b>35,816</b>
<b>Equity</b>				
Share capital		48,080	48,080	48,080
Share premium		7,902	7,902	7,902
Legal reserve		15,280	15,280	14,847
Voluntary reserve		13,635	13,635	13,202
Other components of equity	14	4,408	5,037	5,394
Retained earnings		3,209	3,341	760
<b>Equity attributable to the owners of the parent company</b>		<b>92,514</b>	<b>93,275</b>	<b>90,185</b>
Non-controlling interests		20,849	22,000	17,785
<b>Total equity</b>		<b>113,363</b>	<b>115,275</b>	<b>107,970</b>
<b>Total liabilities and equity</b>		<b>159,704</b>	<b>156,748</b>	<b>143,786</b>

  
Diraar Yusuf Alghanim  
Chairman

  
Ali H. Khalil  
Chief Operating Officer

*The notes set out on pages 8 to 22 form an integral part of this interim condensed consolidated financial information.*

## Interim condensed consolidated statement of changes in equity (Unaudited)

	Equity attributable to the owners of the parent company							Non-controlling interests	Total
	Share capital KD '000	Share premium KD '000	Legal reserve KD '000	Voluntary reserve KD '000	Other components of equity (note 14) KD '000	Retained earnings KD '000	Sub Total KD '000		
<b>Balance at 1 January 2017</b>	48,080	7,902	15,280	13,635	5,037	3,341	93,275	22,000	115,275
Net change in non-controlling interests	-	-	-	-	-	-	-	995	995
Effect arising on liquidation of subsidiary (note 5.1)	-	-	-	-	-	-	-	(2,241)	(2,241)
Effect of change in ownership percentage of subsidiaries (note 5)	-	-	-	-	-	(162)	(162)	162	-
Payment of cash dividend (note 13)	-	-	-	-	-	(2,885)	(2,885)	-	(2,885)
Payment of cash dividend to non-controlling interests shareholders	-	-	-	-	-	-	-	(34)	(34)
Transactions with owners	-	-	-	-	-	(3,047)	(3,047)	(1,118)	(4,165)
Profit/(loss) for the period	-	-	-	-	-	2,915	2,915	(27)	2,888
Total other comprehensive loss	-	-	-	-	(629)	-	(629)	(6)	(635)
Total comprehensive (loss)/income for the period	-	-	-	-	(629)	2,915	2,286	(33)	2,253
<b>Balance at 30 June 2017</b>	<b>48,080</b>	<b>7,902</b>	<b>15,280</b>	<b>13,635</b>	<b>4,408</b>	<b>3,209</b>	<b>92,514</b>	<b>20,849</b>	<b>113,363</b>

The notes set out on pages 8 to 22 form an integral part of this interim condensed consolidated financial information.

## Interim condensed consolidated statement of changes in equity (Unaudited) (continued)

	Equity attributable to the owners of the parent company							Non-controlling interests	Total		
	Share capital KD '000	Share premium KD '000	Legal reserve KD '000	Voluntary reserve KD '000	Treasury shares KD '000	Treasury shares reserve KD '000	Other components of equity (note 14) KD '000			Retained earnings KD '000	Sub Total KD '000
<b>Balance at 1 January 2016</b>	53,130	7,902	14,847	14,793	(16,342)	7,973	7,725	4,132	94,160	18,043	112,203
Cancellation of treasury shares	(5,050)	-	-	-	5,050	-	-	-	-	-	-
Loss on cancellation of treasury shares	-	-	-	-	11,292	(7,973)	-	(3,319)	-	-	-
Net change in non-controlling interests	-	-	-	-	-	-	-	-	-	32	32
Effect of change in ownership percentage of subsidiaries	-	-	-	-	-	-	-	(50)	(50)	50	-
Payment of cash dividend	-	-	-	(1,591)	-	-	-	(813)	(2,404)	-	(2,404)
Transactions with owners	(5,050)	-	-	(1,591)	16,342	(7,973)	-	(4,182)	(2,454)	82	(2,372)
Profit/(loss) for the period	-	-	-	-	-	-	-	810	810	(312)	498
Total other comprehensive loss	-	-	-	-	-	-	(2,331)	-	(2,331)	(28)	(2,359)
Total comprehensive (loss)/income for the period	-	-	-	-	-	-	(2,331)	810	(1,521)	(340)	(1,861)
<b>Balance at 30 June 2016</b>	<b>48,080</b>	<b>7,902</b>	<b>14,847</b>	<b>13,202</b>	<b>-</b>	<b>-</b>	<b>5,394</b>	<b>760</b>	<b>90,185</b>	<b>17,785</b>	<b>107,970</b>

The notes set out on pages 8 to 22 form an integral part of this interim condensed consolidated financial information.



## Interim condensed consolidated statement of cash flows

	Note	Six months ended 30 June 2017 (Unaudited) KD '000	Six months ended 30 June 2016 (Unaudited) KD '000
<b>OPERATING ACTIVITIES</b>			
Profit for the period		2,888	498
Adjustments for:			
Interest income		(554)	(346)
Dividend income		(734)	(600)
Depreciation		150	88
Gain on redemption/sale of available for sale investments		(1,321)	(1,159)
Gain on liquidation of subsidiary		(43)	-
Share of results of associate and joint venture		43	170
Loss/(gain) on sale of investment properties		363	(489)
Impairment of available for sale investments		57	46
Charge /(reversal of provisions)		2	(3)
Finance costs		742	619
		<b>1,593</b>	<b>(1,176)</b>
Changes in operating assets and liabilities:			
Investments at fair value through profit or loss		(4,723)	1,436
Accounts receivable and other assets		(1,471)	24
Loans to customers		(35)	3
Accounts payable and other liabilities		(954)	(488)
<b>Net cash used in operating activities</b>		<b>(5,590)</b>	<b>(201)</b>
<b>INVESTING ACTIVITIES</b>			
Change in time deposits maturing after three months		26	(1,375)
Purchase of property and equipment		(62)	(161)
Proceeds from redemption/sale of available for sale investments		5,873	8,798
Purchase of available for sale investments		(16,675)	(5,320)
Additions to investment properties		(4,670)	(3,322)
Proceeds from sale of investment properties		1,327	1,279
Increase in investment in associate and joint venture		(137)	(34)
Proceeds from liquidation of subsidiary (net of cash and cash equivalent)	5	5,066	-
Dividend received from associate		-	86
Dividend income received		734	600
Interest income received		549	359
<b>Net cash (used in)/from investing activities</b>		<b>(7,969)</b>	<b>910</b>
<b>FINANCING ACTIVITIES</b>			
Dividend paid		(2,832)	(2,299)
Dividend paid to non-controlling interests shareholders		(34)	-
Proceeds from bank borrowings		4,592	149
Finance costs paid		(695)	(615)
Net change in non-controlling interests		(1,246)	32
<b>Net cash used in financing activities</b>		<b>(215)</b>	<b>(2,733)</b>
<b>Decrease in cash and cash equivalents</b>		<b>(13,774)</b>	<b>(2,024)</b>
Foreign currency adjustments		(13)	(61)
Cash and cash equivalents at the beginning of the period	8	21,237	15,201
<b>Cash and cash equivalents at the end of the period</b>	8	<b>7,450</b>	<b>13,116</b>

The notes set out on pages 8 to 22 form an integral part of this interim condensed consolidated financial information.

# Notes to the interim condensed consolidated financial information

## 1 Incorporation and activities

Kuwait Financial Centre – KPSC (“the parent company”) was incorporated in 1974 in accordance with the Commercial Companies Law in the State of Kuwait. The parent company is listed in Boursa Kuwait and is governed under the directives of the Central Bank of Kuwait and Capital Markets Authority of Kuwait.

The Extraordinary General Assembly held on 19 April 2017 approved the amendments to the parent company’s objectives and these amendments have been documented in the commercial register on 30 April 2017 and published in the official gazette on 30 April 2017.

The principal activities of the parent company are as follows:

- Funding import and export operations, whether by direct credit or accepting drafts drawn on the company for short terms, as well as brokerage in securing the banking facilities for clients in Kuwait and abroad.
- Undertake the job of broker between the borrowers and lenders, undertake approved agency works for the payment processes arising from issuing medium and long term securities, in addition to keeping securities on behalf of the clients.
- Dealing and trading in the foreign currencies and the precious metal markets inside and outside Kuwait.
- Undertake all the services which assist to extend and support the money and capital market capacity in Kuwait and fulfil its needs within the limits of the law and the procedures or instructions issued by the Central Bank of Kuwait. The company may have an interest or participate in any manner with the bodies practicing business similar to its business or which may assist it to achieve its objectives inside or outside Kuwait and it may acquire such bodies or append them to itself.
- Offering personal, commercial and consumer loans, undertake finance operations on the basis of margin related to investment operations in the local and international markets, trading currencies, as well as the finance operations related to pledging investment portfolios and securities, and undertaking finance and brokerage in international and local commercial operations.
- Investment in the various economic sectors such as the industrial, real estate, agricultural, services and other sectors, whether directly or by contribution through existing companies or incorporating these companies related to the said activity or acquire projects which fulfil such objective.
- Undertake the functions of investment trustees and investment portfolio management for the account of third parties with the required loaning and borrowing operations.
- Unregistered securities broker in the stock exchange.
- Investment portfolio manager.
- Collective investment scheme manager.
- Investment advisor.
- Placement agent.
- Custodian.

## Notes to the interim condensed consolidated financial information (continued)

### 1 Incorporation and activities (continued)

Taking into consideration the provisions of the Companies Law its amendments and its Executive Regulations, provisions of the Capital Markets Authority, its Executive Regulations, resolutions and instructions, and provisions of the Central Bank of Kuwait, its regulations, resolutions and circulars. The Company may carry out the above mentioned activities inside and outside the State of Kuwait directly or through an agent.

The Company may carry out similar or complementary or necessary or related to its above mentioned activities after getting the approval from the regulatory authorities.

The address of the parent company's registered office is PO Box 23444, Safat 13095, State of Kuwait.

This interim condensed consolidated financial information of the parent company and its subsidiaries (together known as "the Group") for the six-month period ended 30 June 2017 was authorized for issue by the parent company's board of directors on 27 July 2017.

### 2 Basis of preparation

This interim condensed consolidated financial information of the group for the six-month period ended 30 June 2017 has been prepared in accordance with IAS 34, Interim Financial Reporting, except as noted below.

The annual consolidated financial statements for the year ended 31 December 2016 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait ("CBK"). These regulations require adoption of all International Financial Reporting Standards ("IFRS") except for the IAS 39 requirement for collective impairment provision, which has been replaced by the CBK's requirement for a minimum general provision as described below.

The impairment provision for loans and advances complies in all material respects with the specific provision requirements of the CBK and IFRS. In this respect, the CBK requires general provisions of 1% for cash facilities and 0.5% for non-cash facilities, for which no specific provision has been made.

This interim condensed consolidated financial information does not contain all information and disclosures required for complete consolidated financial statements prepared in accordance with the International Financial Reporting Standards. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included.

Operating results for the six months ended 30 June 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017. For more details, refer to the annual audited consolidated financial statements and its related disclosures for the year ended 31 December 2016.

This interim condensed consolidated financial information is presented in Kuwaiti Dinars ("KD") which is the functional and presentation currency of the parent company.

The accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those used in the preparation of the most recent annual financial statements of the group for the year ended 31 December 2016 except for adoption of relevant new standards, amendments to certain standards and interpretations discussed below.

## Notes to the interim condensed consolidated financial information (continued)

### 3 Changes in accounting policies

#### 3.1 New and amended standards adopted by the group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2017 which have been adopted by the group but did not have any significant impact on the financial position or the results for the period. Information on these new standards is presented below:

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IAS 7 Statement of Cash Flows- Amendments	1 January 2017

#### *IAS 7 Statement of Cash Flows- Amendments*

The Amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and noncash changes)

The Amendments:

- require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgement when determining the exact form and content of the disclosures needed to satisfy this requirement.
- suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:
  - changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses
  - a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

#### 3.2 IASB Standards issued but not yet effective

At the date of authorisation of this interim condensed consolidated financial information, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group.

Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments and interpretations that are expected to be relevant to the group's interim condensed consolidated financial information is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the group's interim condensed consolidated financial information.

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments	No stated date
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018
IAS 40 Investment Property - Amendments	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

## Notes to the interim condensed consolidated financial information (continued)

### 3 Changes in accounting policies (continued)

#### 3.2 IASB Standards issued but not yet effective (continued)

##### *IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments*

The Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations)
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

IASB has postponed the effective date indefinitely until other projects are completed. However, early implementation is allowed.

##### *IFRS 9 Financial Instruments*

The IASB published IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Management has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

- the classification and measurement of the financial assets will need to be reviewed based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed.
- an expected credit loss-based impairment will need to be recognised on the trade receivables and investments in debt-type assets currently classified as available for sale and held-to-maturity, unless classified as at fair value through profit or loss in accordance with the new criteria.
- it will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be presented in profit or loss unless an irrevocable designation is made to present them in other comprehensive income.
- if the fair value option continues to be elected for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to own credit risk.

## Notes to the interim condensed consolidated financial information (continued)

### 3 Changes in accounting policies (continued)

#### 3.2 IASB Standards issued but not yet effective (continued)

##### *IFRS 40 Investment Property - Amendments*

The Amendments to IAS 40 clarifies that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterise the list of circumstances appearing in paragraph 57(a)–(d) as a non-exhaustive list of examples of evidence that a change in use has occurred. The Board has also clarified that a change in management’s intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.

##### *IFRIC 22 Foreign Currency Transactions and Advance Consideration*

The Interpretations looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income. A diversity was observed in practice in circumstances in which an entity recognises a non-monetary liability arising from advance consideration. The diversity resulted from the fact that some entities were recognising revenue using the spot exchange rate at the date of the receipt of the advance consideration while others were using the spot exchange rate at the date that revenue was recognized. IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

### 4 Judgment and estimates

The preparation of interim condensed consolidated financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgments made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual audited consolidated financial statements as at and for the year ended 31 December 2016.

### 5 Group’s subsidiaries

During the period, the group’s ownership in the following subsidiaries has changed as follow:

Name	Country of incorporation	Voting capital Held			Purpose
		30 June. 2017 (Unaudited)	31 Dec. 2016 (Audited)	30 June. 2016 (Unaudited)	
Markaz Fixed Income Fund	Kuwait	76.79%	73.66%	81.21%	Investment Fund
Markaz Arabian Fund	Kingdom of Bahrain	58.49%	58.17%	58.20%	Investment Fund
Mawazeen International Fund(5.1)	Kuwait	-	58.95%	57.69%	Investment Fund

## Notes to the interim condensed consolidated financial information (continued)

### 5 Group's subsidiaries (continued)

The changes in ownership of Markaz Fixed Income Fund increased by 3.13% and Markaz Arabian Fund increased by 0.32% due to changes in units held by non controlling interest holders as a result of addition and redemption of the fund's units. These changes in the ownership resulted in a net loss of KD162 thousand included in the interim condensed consolidated statement of changes in equity as the parent company continues to control these subsidiaries, the changes resulting from deemed ownership changes in these subsidiaries have been recognised in equity.

Subsequent to the reporting date, on 19 July 2017 one of the unit holders of Markaz Mena Islamic Fund ("the Fund") redeemed entire unit holding in the Fund representing 25% of the Fund's total outstanding units resulting in the parent company ("Fund Manager") with 100% holding in the funds outstanding units. Accordingly the Group's non-controlling interests and assets are expected to be reduced by KD 1.65 million.

#### 5.1 Liquidation of subsidiary fund

During the period, the group has liquidated its 58.95% owned subsidiary fund "Mawazeen International Fund". The parent company received a total consideration of KD3,268 thousand from the liquidation and resulting in a gain of KD43 thousand recognised in the interim condensed consolidated statement of profit or loss for the period. The details of the share of proceeds from the liquidation of subsidiary fund are as follows:

	KD '000
Investments at fair value through profit or loss	4,992
Cash and cash equivalents	478
Net assets value at the date of liquidation	<u>5,470</u>
Total consideration received (including cash and cash equivalents)	5,544
Less: cash and cash equivalents	<u>(478)</u>
Total consideration received (excluding cash and cash equivalents)	<u>5,066</u>

Gain recognised by the parent company from the liquidation proceeds is as follows:

	KD '000
Total consideration received	3,268
Net assets value at the date of liquidation	<u>(3,225)</u>
<b>Gain on liquidation of subsidiary</b>	<b>43</b>

### 6 Gain/(loss) from investments at fair value through profit or loss

	Three months ended		Six months ended	
	30 June 2017 (Unaudited) KD '000	30 June 2016 (Unaudited) KD '000	30 June 2017 (Unaudited) KD '000	30 June 2016 (Unaudited) KD '000
Gain/(loss) on sale of investments at fair value through profit or loss	125	2	873	(758)
Change in fair value of investments at fair value through profit or loss	238	(291)	1,238	(984)
	<u>363</u>	<u>(289)</u>	<u>2,111</u>	<u>(1,742)</u>

## Notes to the interim condensed consolidated financial information (continued)

### 7 Basic and diluted earnings per share attributable to the owners of the parent company

Basic and diluted earnings per share attributable to the owners of the parent company is calculated by dividing the profit for the period attributable to the owners of the parent company by the weighted average number of shares in issue.

	Three months ended		Six months ended	
	30 June 2017 (Unaudited)	30 June 2016 (Unaudited)	30 June 2017 (Unaudited)	30 June 2016 (Unaudited)
Profit for the period attributable to the owners of the parent company (KD '000)	725	1,493	2,915	810
Weighted average number of shares in issue during the period (000's)	480,802	480,802	480,802	480,802
Basic and diluted earnings per share attributable to the owners of the parent company	1 Fils	3 Fils	6 Fils	2 Fils

### 8 Cash and cash equivalents

Cash and cash equivalents included in the interim condensed consolidated statement of cash flows comprise of the following accounts:

	30 June 2017 (Unaudited) KD '000	31 Dec. 2016 (Audited) KD '000	30 June 2016 (Unaudited) KD '000
Cash and bank balances	7,964	12,237	9,552
Time deposits with banks	1,437	9,857	5,036
	9,401	22,094	14,588
Less: Due to banks and other financial institutions	(1,120)	-	-
Less: Time deposits maturing after three months	(831)	(857)	(1,472)
Cash and cash equivalent for interim condensed consolidated statement of cash flows	7,450	21,237	13,116

The group's time deposits carry an effective interest rate of 0.81% (31 December 2016: 1.25% and 30 June 2016: 1.31%) per annum.

The group has a USD 10 million over draft facility from a foreign bank. The facility carries interest rate at 2.34% per annum. At 30 June 2017, the group had drawn an amount equivalent to KD1,120 from this facility (31 December 2016 and 30 June 2016 KD Nil).



## Notes to the interim condensed consolidated financial information (continued)

### 9 Investments at fair value through profit or loss

	30 June 2017 (Unaudited) KD '000	31 Dec. 2016 (Audited) KD '000	30 June 2016 (Unaudited) KD '000
<b>Trading :</b>			
Local quoted securities	2,745	1,909	-
Foreign quoted securities	22,912	15,389	12,448
	<b>25,657</b>	<b>17,298</b>	<b>12,448</b>
<b>Designated on initial recognition:</b>			
Local managed funds	21,392	20,244	23,579
Foreign quoted securities	-	9,180	2,370
Fixed income securities	715	1,311	1,267
	<b>22,107</b>	<b>30,735</b>	<b>27,216</b>
	<b>47,764</b>	<b>48,033</b>	<b>39,664</b>

The investments in local managed funds are carried at net asset value provided by the respective fund managers due to the nature of these investments. Management believes the net asset value provided by the fund managers represents the best estimate of fair value available for these investments.

The interest rates on fixed income securities range from 7.00% to 9.00% (31 December 2016: 6.50% to 9.00% and 30 June 2016: 2.50% to 9.00%) per annum.

### 10 Available for sale investments

	30 June 2017 (Unaudited) KD '000	31 Dec. 2016 (Audited) KD '000	30 June 2016 (Unaudited) KD '000
Quoted shares	4,564	4,973	4,715
Unquoted securities	1,344	1,518	797
Managed funds	28,451	18,872	24,516
Equity participation	13,843	11,050	13,051
Debt instruments	5,443	5,457	6,213
	<b>53,645</b>	<b>41,870</b>	<b>49,292</b>

The investments in managed funds are carried at net asset value provided by the respective fund managers due to the nature of these investments. Management believes the net asset value provided by the fund managers represents the best estimate of fair value available for these investments.

Fair value of investments in equity participation are determined mostly based on net assets value provided by the investment managers as this represents the best estimate of fair value available for these investments.

Investment in debt instrument amounting to KD437 thousand (31 December 2016: KD446 thousand and 30 June 2016: KD1,195 thousand) are secured by charges over real estate properties and carry average interest rate of 7.25% (31 December 2016: 7.25% and 30 June 2016: 4.43%) per annum.

Debt instruments include investment in sukuk amounting to KD4,979 thousand (31 December 2016: KD4,985 thousand and 30 June 2016: KD4,991 thousand) carrying profit rate of 2% above Central Bank of Kuwait discount rate (31 December 2016 and 30 June 2016: 2% above Central Bank of Kuwait discount rate) per annum.

## Notes to the interim condensed consolidated financial information (continued)

### 10 Available for sale investments (continued)

During the period, the group recognised an impairment loss of KD57 thousand (30 June 2016: KD46 thousand) in respect of certain available for sale investments. Management has performed an analysis of the underlying investments which indicates that there is no further impairment.

### 11 Investment properties

The movement in investment properties is as follows:

	30 June 2017 (Unaudited) KD '000	31 Dec. 2016 (Audited) KD '000	30 June 2016 (Unaudited) KD '000
Carrying value at the beginning of the period/year	35,745	29,167	29,167
Additions	4,670	7,761	3,322
(Loss)/gain on sale	(363)	490	489
Proceeds from sale	(1,327)	(1,286)	(1,279)
Impairment	-	(451)	-
Depreciation	(82)	(179)	(19)
Foreign currency translation adjustment	(333)	243	(167)
	<b>38,310</b>	<b>35,745</b>	<b>31,513</b>

### 12 Bank borrowings

This represents following bank borrowings:

- a. Unsecured loan facilities amounting to KD24.42 million obtained from local commercial banks and carry interest rate ranging from 2% to 2.50% above Central Bank of Kuwait discount rate. Outstanding balance of this loan as at 30 June 2017 amounted to KD5.15million (31 December 2016: KD1.75 million and 30 June 2016: KD 2.66 million) of which KD 2.15 million (31 December 2016: KD1.75 million and 30 June 2016: KD 2.66 million) is guaranteed by the parent company (note 18).
- b. Murabaha facility obtained from a local Islamic bank amounting to KD4.97million (31 December 2016: KD 4.98 million and 30 June 2016: KD4.99 million) carrying a profit rate of 1.5% above Central Bank of Kuwait discount rate and maturing in September 2017.
- c. Unsecured loan facility obtained from a commercial bank amounting to AED107.35 million (equivalent to KD8.86 million) carrying an interest rate of 3.25% above 3 month EIBOR. Outstanding balance of this loan as at 30 June 2017 amounted to AED31.75 million (equivalent to KD2.62 million) (31 December 2016 AED17.02 million (equivalent to KD1.42 million) and 30 June 2016: KD Nil). This loan is guaranteed by the parent company (note 18).

### 13 Annual general assembly of the shareholders

The Annual General Assembly of the shareholders held on 19 April 2017 approved the consolidated financial statements of the group for the year ended 31 December 2016 and approved cash dividend of 6 Fils (31 December 2015: 5 Fils) per share amounting to KD2,885 thousand (31 December 2015: KD2,404 thousand). Dividends were paid after the Annual General Assembly of the shareholders

## Notes to the interim condensed consolidated financial information (continued)

### 14 Other components of equity

	Fair value reserve KD'000	Foreign currency translation reserve KD'000	Total KD'000
<b>Balance at 1 January 2017</b>	<b>4,141</b>	<b>896</b>	<b>5,037</b>
Available for sale investments :			
- Net change in fair value arising during the period	970	-	970
- Transferred to interim condensed consolidated statement of profit or loss on sale	(1,321)	-	(1,321)
- Transferred to interim condensed consolidated statement of profit or loss on impairment	57	-	57
Exchange differences arising on translation of foreign operations	-	(316)	(316)
Share of other comprehensive loss of associate and joint venture	-	(19)	(19)
<b>Total other comprehensive loss</b>	<b>(294)</b>	<b>(335)</b>	<b>(629)</b>
<b>Balance at 30 June 2017</b>	<b>3,847</b>	<b>561</b>	<b>4,408</b>
<b>Balance at 1 January 2016</b>	<b>6,988</b>	<b>737</b>	<b>7,725</b>
Available for sale investments :			
- Net change in fair value arising during the period	(1,040)	-	(1,040)
- Transferred to interim condensed consolidated statement of profit or loss on sale	(1,159)	-	(1,159)
- Transferred to interim condensed consolidated statement of profit or loss on impairment	46	-	46
Exchange differences arising on translation of foreign operations	-	(176)	(176)
Share of other comprehensive loss of associate and joint venture	-	(2)	(2)
<b>Total other comprehensive loss</b>	<b>(2,153)</b>	<b>(178)</b>	<b>(2,331)</b>
<b>Balance at 30 June 2016</b>	<b>4,835</b>	<b>559</b>	<b>5,394</b>

### 15 Related party transactions

Related parties represent associate, major shareholders, directors and key management personnel of the group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the group's management. Transactions between the parent company and its subsidiaries which are related parties of the parent company have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and other related parties are disclosed below.

During the period, the group entities entered into the following transactions with related parties that are not members of the group:

## Notes to the interim condensed consolidated financial information (continued)

### 15 Related party transactions (continued)

	Three months ended		Six months ended	
	30 June 2017 (Unaudited) KD '000	30 June 2016 (Unaudited) KD '000	30 June 2017 (Unaudited) KD '000	30 June 2016 (Unaudited) KD '000
<b>Transactions included in the interim condensed consolidated statement of profit or loss:</b>				
Interest income on loans and short term financing	1	1	2	2
Management fees and commission	1,033	1,027	2,042	2,181
<b>Key management compensation:</b>				
Salaries and other short term benefits	192	255	381	482
End of service benefits	35	30	56	54
	227	285	437	536

	30 June 2017 (Unaudited) KD '000	31 Dec. 2016 (Audited) KD '000	30 June 2016 (Unaudited) KD '000
<b>Balances included in the interim condensed consolidated statement of financial position:</b>			
Loans to customers	96	93	87
Accounts receivable and other assets	590	528	578
Accounts payable and other liabilities	1,266	1,313	1,308

### 16 Segmental information

Operating segments are identified based on internal management reporting information that is regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance, and is reconciled to group profit or loss. The measurement policies the group uses for segment reporting under IFRS 8 are the same as those used in its annual consolidated financial statements.

The revenues and profits generated by the group from business segments are summarised as follows:

	Asset Management (Unaudited)		Investment Banking (Unaudited)		Total (Unaudited)	
	30 June 2017 KD'000	30 June 2016 KD'000	30 June 2017 KD'000	30 June 2016 KD'000	30 June 2017 KD'000	30 June 2016 KD'000
Segment revenue	6,922	3,454	792	1,279	7,714	4,733
Segment result	3,003	616	24	(78)	3,027	538
KFAS, NLST and Zakat	(138)	(40)	(1)	-	(139)	(40)
Profit/(loss) for the period	2,865	576	23	(78)	2,888	498
Total assets	140,134	120,482	19,570	23,304	159,704	143,786

## Notes to the interim condensed consolidated financial information (continued)

### 17 Fiduciary accounts

The group manages portfolios on behalf of others, mutual funds and maintains cash balances and securities in fiduciary accounts, which are not reflected in the interim condensed consolidated statement of financial position. Assets under management at 30 June 2017 amounted to KD959,686 thousand (31 December 2016: KD934,787 thousand and 30 June 2016: KD943,133 thousand). The group earned management fee of KD2,692 thousand (30 June 2016: KD2,739 thousand) from the asset management activities.

### 18 Commitments

	30 June 2017 (Unaudited) KD '000	31 Dec. 2016 (Audited) KD '000	30 June 2016 (Unaudited) KD '000
Commitments for purchase of investments	4,035	3,978	4,080
Letters of guarantee	30	11	822
Corporate guarantee	4,768	3,167	2,793
	<b>8,833</b>	<b>7,156</b>	<b>7,695</b>

Corporate guarantee represents guarantee given by the parent company towards loans taken by its subsidiaries.

### 19 Derivative financial instruments

The contractual amounts of out-standing derivative instruments together with the fair value are as follows:

	30 June 2017 (Unaudited)		31 Dec. 2016 (Audited)		30 June 2016 (Unaudited)	
	Contractual amounts KD'000	Assets/ (liabilities) KD'000	Contractual amounts KD'000	Assets/ (liabilities) KD'000	Contractual amounts KD'000	Assets/ (liabilities) KD'000
<i>Held for trading:</i>						
Forward foreign exchange contracts	10,611	51	7,656	(52)	7,569	14

### 20 Financial risk management

All aspects of the group's financial risk management objectives and policies are consistent with those disclosed in the annual consolidated financial statements for the year ended 31 December 2016.

### 21 Fair value measurement

Fair value represents 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.

## Notes to the interim condensed consolidated financial information (continued)

### 21 Fair value measurement (continued)

Financial assets and financial liabilities measured at fair value in the interim condensed consolidated statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value on a recurring basis in the interim condensed consolidated financial position are grouped into the fair value hierarchy as follows:

30 June 2017 (Unaudited)

	KD'000			Total
	Level 1	Level 2	Level 3	
<b>Investments at fair value through profit or loss</b>				
Quoted securities	25,657	-	-	25,657
Managed funds-GCC	-	21,392	-	21,392
Fixed income securities	715	-	-	715
	<b>26,372</b>	<b>21,392</b>	<b>-</b>	<b>47,764</b>
<b>Derivative</b>				
Forward foreign currency contracts held for trading	-	51	-	51
<b>Available for sale investments</b>				
Quoted securities	4,564	-	-	4,564
Managed funds				
- GCC	-	13,058	-	13,058
- Foreign	-	15,393	-	15,393
Debt instruments	-	-	5,443	5,443
Equity participations	-	13,843	-	13,843
Unquoted securities	-	-	1,344	1,344
	<b>4,564</b>	<b>42,294</b>	<b>6,787</b>	<b>53,645</b>
	<b>30,936</b>	<b>63,737</b>	<b>6,787</b>	<b>101,460</b>

## Notes to the interim condensed consolidated financial information (continued)

### 21 Fair value measurement (continued)

31 December 2016 (Audited)

	KD'000			
	Level 1	Level 2	Level 3	Total
<b>Investments at fair value through profit or loss</b>				
Quoted securities	26,478	-	-	26,478
Managed funds-GCC	-	20,244	-	20,244
Fixed income securities	966	-	-	966
	27,444	20,244	-	47,688
<b>Derivative</b>				
Forward foreign currency contracts held for trading	-	(52)	-	(52)
<b>Available for sale investments</b>				
Quoted securities	4,973	-	-	4,973
Managed funds				
- GCC	-	13,260	-	13,260
- Foreign	-	5,612	-	5,612
Debt instruments	-	-	5,457	5,457
Equity participations	-	11,050	-	11,050
Unquoted securities	-	-	1,518	1,518
	4,973	29,922	6,975	41,870
	32,417	50,114	6,975	89,506

30 June 2016 (Unaudited)

	KD'000			
	Level 1	Level 2	Level 3	Total
<b>Investments at fair value through profit or loss</b>				
Quoted securities	14,813	-	-	14,813
Managed funds-GCC	-	23,584	-	23,584
Fixed income securities	922	-	-	922
	15,735	23,584	-	39,319
<b>Derivative</b>				
Forward foreign currency contracts held for trading	-	14	-	14
<b>Available for sale investments</b>				
Quoted securities	4,715	-	-	4,715
Managed funds				
- GCC	-	13,337	-	13,337
- Foreign	-	11,179	-	11,179
Debt instruments	-	-	6,213	6,213
Equity participations	-	13,051	-	13,051
Unquoted securities	-	-	797	797
	4,715	37,567	7,010	49,292
	20,450	61,165	7,010	88,625

There have been no significant transfers between levels 1 and 2 during the reporting period.

## Notes to the interim condensed consolidated financial information (continued)

### 21 Fair value measurement (continued)

#### Measurement at fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

#### Level 3 fair value measurements

The group's financial assets and liabilities classified in level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	Available for sale Investments		
	30 June 2017 (Unaudited) KD '000	31 Dec. 2016 (Audited) KD '000	30 June 2016 (Unaudited) KD '000
Opening balance	6,975	7,017	7,017
(Redemption)/additions	(182)	84	(8)
Gains or losses recognised in:			
-Other comprehensive (loss)/income	(6)	(126)	1
Closing balance	6,787	6,975	7,010

The group's finance team performs valuations of financial items for financial reporting purposes, including level 3 fair values, in consultation with third party valuation specialists for complex valuations, where required. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

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

The impact on interim condensed consolidated statement of profit or loss and interim condensed consolidated statement of profit or loss and other comprehensive income would be immaterial if the relevant risk variable used to fair value the level 3 investments were changed by 5%.