KUWAIT PROJECTS COMPANY HOLDING K.S.C.P. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

Building a better
working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT PROJECTS COMPANY HOLDING K.S.C.P.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait Projects Company Holding K.S.C.P. (the "Parent Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity 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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 auditor considers internal controls relevant to the Parent Company'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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Parent Company's 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT PROJECTS COMPANY HOLDING K.S.C.P. (continued)

Opinion

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

Report on Other Legal and Regulatory Requirements

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

WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

DR. SHUAIB A. SHUAIB
LICENCE NO. 33 A
RSM Albazie & Co.

21 February 2015
Kuwait

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	**2014 KD 000's**	2013 KD 000's
ASSETS			
Cash in hand and at banks	3	**1,515,679**	1,373,540
Treasury bills and bonds		**629,819**	583,647
Loans and advances	4	**4,764,622**	4,334,057
Financial assets at fair value through profit or loss	5	**66,750**	48,581
Financial assets available for sale	6	**364,777**	427,919
Financial assets held to maturity		**47,966**	17,796
Other assets	7	**359,012**	353,975
Properties held for trading		**58,849**	49,818
Investment in associates	8	**393,301**	376,951
Investment in a media joint venture	9	**162,698**	144,133
Investment properties	10	**386,678**	362,561
Property, plant and equipment		**244,024**	229,919
Intangible assets	11	**333,976**	334,652
TOTAL ASSETS		**9,328,151**	8,637,549
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions		**1,836,085**	1,582,027
Deposits from customers		**4,842,021**	4,729,881
Loans payable	13	**231,094**	233,532
Bonds	14	**230,141**	230,034
Medium term notes	15	**562,581**	400,482
Other liabilities	16	**351,752**	347,488
Total liabilities		**8,053,674**	7,523,444
Equity			
Share capital	17	**147,357**	140,340
Share premium	17	**3,111**	3,111
Treasury shares	17	**(76,773)**	(11,434)
Statutory reserve	17	**101,480**	96,850
Voluntary reserve	17	**101,205**	96,575
Cumulative changes in fair values		**(1,563)**	(4,450)
Foreign currency translation reserve		**(24,522)**	(22,279)
Employee stock option plan reserve	18	**1,545**	1,976
Other reserve		**317**	148
Retained earnings		**262,971**	259,593
Equity attributable to equity holders of the Parent Company		**515,128**	560,430
Perpetual capital securities	17	**144,025**	-
Non controlling interest		**615,324**	553,675
Total equity		**1,274,477**	1,114,105
TOTAL LIABILITIES AND EQUITY		**9,328,151**	8,637,549

Faisal Hamad Al Ayyar
Vice Chairman

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Notes	***2014 KD 000's***	*2013 KD 000's*
Continuing operations:			
Income:			
Interest income		**309,427**	266,306
Investment income	19	**43,786**	40,479
Fees and commission income	20	**59,831**	53,668
Share of results of associates		**34,538**	13,729
Share of results of a media joint venture	9	**10,930**	6,310
Digital satellite network services income		**23,445**	21,537
Hospitality and real estate income		**57,637**	45,890
Manufacturing & distribution income		**33,190**	33,724
Other income		**18,563**	12,693
Foreign exchange gain		**6,571**	19,759
Income		**597,918**	514,095
Expenses:			
Interest expense		**175,823**	153,602
Digital satellite network services expense		**14,638**	12,902
Hospitality and real estate expense		**33,918**	24,838
Manufacturing & distribution expense		**30,691**	30,588
General and administrative expenses	21	**155,005**	140,265
Depreciation and amortization		**22,152**	19,974
Expenses		**432,227**	382,169
Operating profit before provisions and directors' remuneration		**165,691**	131,926
Provision for credit losses	4	**(57,682)**	(58,650)
Provision for impairment of investments		**(3,937)**	(4,164)
Board of Directors' remuneration	26	**(220)**	(175)
Profit from continuing operations		**103,852**	68,937
Discontinued operations:			
Profit from discontinued operations	22	**-**	40,015
Profit before taxation		**103,852**	108,952
Taxation	23	**(16,434)**	(15,772)
Profit for the year		**87,418**	93,180
Attributable to:			
Equity holders of the Parent Company		**46,086**	40,055
Non controlling interest		**41,332**	53,125
		87,418	93,180
		Fils	*Fils*
EARNINGS PER SHARE:			
Basic – attributable to equity holders of the Parent Company	24	**33.00**	27.92
Diluted – attributable to equity holders of the Parent Company	24	**32.78**	27.79

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014	*2013*
	KD 000's	*KD 000's*
Profit for the year	**87,418**	93,180
Other comprehensive income items that may be reclassified to consolidated income statement in subsequent periods:		
Financial assets available for sale:		
- Net fair value loss	**(2,787)**	(2,052)
- Net transfer to consolidated income statement	**(3,234)**	(1,459)
Changes in fair value of cash flow hedge	**39**	81
Foreign currency translation adjustment	**(2,602)**	(12,655)
Share of other comprehensive income (loss) from associates	**11,207**	(2,626)
Other comprehensive income from discontinued operations	**-**	895
Net other comprehensive income (loss) to be reclassified to consolidated income statement in subsequent periods	**2,623**	(17,816)
Total comprehensive income for the year	**90,041**	75,364
Attributable to:		
Equity holders of the Parent Company	**46,730**	28,957
Non controlling interest	**43,311**	46,407
	90,041	75,364

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

	Notes	*2014* KD 000's	*2013* KD 000's
OPERATING ACTIVITIES			
Profit before taxation from continuing operations		**103,852**	68,937
Profit before taxation from discontinued operations		**-**	40,015
Profit before taxation		**103,852**	108,952
Adjustments to reconcile profit before taxation to net cash flows:			
Interest income		**(309,427)**	(266,306)
Investment income	19	**(43,786)**	(40,479)
Gain on disposal of discontinued operation	22	**-**	(29,880)
Share of results of associates		**(34,538)**	(13,729)
Share of results of a media joint venture		**(10,930)**	(6,310)
Interest expense		**175,823**	153,602
Depreciation and amortization (from continued and discontinued operation)		**22,152**	22,824
Provision for credit losses		**57,682**	58,650
Provision for impairment of investments		**3,937**	4,164
Foreign exchange loss (gain) on loans payable and medium term notes		**6,392**	(2,183)
Provision for employee stock option plan		**(431)**	(482)
		(29,274)	(11,177)
Changes in operating assets and liabilities:			
Deposits with original maturities exceeding three months		**(304)**	2,866
Treasury bills and bonds		**(46,172)**	(100,059)
Loans and advances		**(488,247)**	(612,363)
Financial assets at fair value through profit or loss		**1,349**	12,144
Financial assets available for sale		**79,231**	(82,386)
Other assets		**(53,732)**	(103,539)
Properties held for trading		**(9,042)**	(6,166)
Due to banks and other financial institutions		**254,058**	400,434
Deposits from customers		**112,140**	746,664
Other liabilities		**29,833**	6,050
Dividends received		**5,996**	4,715
Interest received		**330,440**	264,343
Interest paid		**(200,103)**	(155,784)
Taxation paid		**(17,957)**	(18,313)
Net cash (used in) from operating activities		**(31,784)**	347,429
INVESTING ACTIVITIES			
Acquisition of subsidiaries, net of cash acquired	25	**-**	75,583
Net cash flow from disposal of the discontinued operation	22	**-**	58,361
Purchase of investment properties		**(26,758)**	(26,807)
Proceeds from sale of investment properties		**8,014**	34,842
Financial assets held to maturity		**(29,927)**	(10,537)
Proceeds from disposal (acquisition) of investment in associates, net		**12,680**	(54,040)
Dividends received from associates		**3,427**	4,919
Net cash (used in) from investing activities		**(32,564)**	82,321
FINANCING ACTIVITIES			
Repayment of loans payable, net		**(2,438)**	(17,731)
Proceeds from bonds		**-**	16,591
Proceeds from medium term notes		**140,092**	-
Purchase of treasury shares		**(72,676)**	(5,172)
Proceeds from sale of treasury shares		**9,044**	16,677
Proceeds from issue of perpetual capital securities		**144,025**	-
Perpetual capital securities issuance cost		**(1,022)**	-
Dividends paid to equity holders of the Parent Company		**(27,298)**	(26,042)
Dividends paid to non controlling interest		**(14,623)**	(14,902)
Movement in non controlling interest		**26,313**	(24,765)
Net cash from (used in) financing activities		**201,417**	(55,344)
Net foreign exchange difference		**4,766**	(7,712)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**141,835**	366,694
Cash and cash equivalents at 1 January		**1,370,793**	1,004,099
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3	**1,512,628**	1,370,793

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to equity holders of the Parent Company													
	Share capital KD 000's	*Share premium KD 000's*	*Treasury shares KD 000's*	*Statutory reserve KD 000's*	*Voluntary reserve KD 000's*	*Cumulative changes in fair values KD 000's*	*Foreign currency translation reserve KD 000's*	*ESOP reserve KD 000's*	*Other reserve KD 000's*	*Retained earnings KD 000's*	*Total KD 000's*	*Perpetual capital securities KD 000's*	*Non controlling interest KD 000's*	*Total equity KD 000's*
As at 1 January 2014	140,340	3,111	(11,434)	96,850	96,575	(4,450)	(22,279)	1,976	148	259,593	560,430	-	553,675	1,114,105
Profit for the year	-	-	-	-	-	-	-	-	-	46,086	46,086	-	41,332	87,418
Other comprehensive income (loss)	-	-	-	-	-	2,887	(2,243)	-	-	-	644	-	1,979	2,623
Total comprehensive income (loss)	-	-	-	-	-	2,887	(2,243)	-	-	46,086	46,730	-	43,311	90,041
Dividends for 2013 at 20 fils per share (note 17)	-	-	-	-	-	-	-	-	-	(27,532)	(27,532)	-	-	(27,532)
Issue of bonus shares (note 17)	7,017	-	-	-	-	-	-	-	-	(7,017)	-	-	-	-
Transfers to reserves	-	-	-	4,630	4,630	-	-	-	-	(9,260)	-	-	-	-
Purchase of treasury shares	-	-	(72,676)	-	-	-	-	-	-	-	(72,676)	-	-	(72,676)
Sale of treasury shares	-	-	7,337	-	-	-	-	-	-	1,707	9,044	-	-	9,044
Employees' share based payment	-	-	-	-	-	-	-	(431)	-	-	(431)	-	-	(431)
Dividends paid to non controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	(14,623)	(14,623)
Proceeds from issue of perpetual capital securities (note 17)	-	-	-	-	-	-	-	-	-	-	-	144,025	-	144,025
Perpetual capital securities issuance cost (note 17)	-	-	-	-	-	-	-	-	-	(606)	(606)	-	(416)	(1,022)
Ownership changes in subsidiaries	-	-	-	-	-	-	-	-	169	-	169	-	33,377	33,546
As at 31 December 2014	**147,357**	**3,111**	**(76,773)**	**101,480**	**101,205**	**(1,563)**	**(24,522)**	**1,545**	**317**	**262,971**	**515,128**	**144,025**	**615,324**	**1,274,477**

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2014

	Attributable to equity holders of the Parent Company												
	Share capital KD 000's	*Share premium KD 000's*	*Treasury shares KD 000's*	*Statutory reserve KD 000's*	*Voluntary reserve KD 000's*	*Cumulative changes in fair values KD 000's*	*Foreign currency translation reserve KD 000's*	*ESOP reserve KD 000's*	*Other reserve KD 000's*	*Retained earnings KD 000's*	*Total KD 000's*	*Non controlling interest KD 000's*	*Total equity KD 000's*
As at 1 January 2013	133,657	3,111	(22,325)	92,827	92,552	(850)	(14,781)	2,458	252	259,715	546,616	549,111	1,095,727
Profit for the year	-	-	-	-	-	-	-	-	-	40,055	40,055	53,125	93,180
Other comprehensive loss	-	-	-	-	-	(3,600)	(7,498)	-	-	-	(11,098)	(6,718)	(17,816)
Total comprehensive (loss) income	-	-	-	-	-	(3,600)	(7,498)	-	-	40,055	28,957	46,407	75,364
Dividends for 2012 at 20 fils per share	-	-	-	-	-	-	-	-	-	(26,062)	(26,062)	-	(26,062)
Issue of bonus shares	6,683	-	-	-	-	-	-	-	-	(6,683)	-	-	-
Transfers to reserves	-	-	-	4,023	4,023	-	-	-	-	(8,046)	-	-	-
Purchase of treasury shares	-	-	(5,172)	-	-	-	-	-	-	-	(5,172)	-	(5,172)
Sale of treasury shares	-	-	16,063	-	-	-	-	-	-	614	16,677	-	16,677
Employees' share based payment	-	-	-	-	-	-	-	(482)	-	-	(482)	-	(482)
Dividends paid to non controlling interest *	-	-	-	-	-	-	-	-	-	-	-	(20,441)	(20,441)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	21,082	21,082
Discontinued operations	-	-	-	-	-	-	-	-	-	-	-	(37,548)	(37,548)
Ownership changes in subsidiaries	-	-	-	-	-	-	-	-	(104)	-	(104)	(4,936)	(5,040)
As at 31 December 2013	140,340	3,111	(11,434)	96,850	96,575	(4,450)	(22,279)	1,976	148	259,593	560,430	553,675	1,114,105

** Includes dividends paid to non controlling interest in kind amounting to KD 5,539 thousand.*

The attached notes 1 to 33 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

Kuwait Projects Company Holding K.S.C.P. (the "Parent Company") is a public shareholding company registered and incorporated under the laws of the State of Kuwait on 2 August 1975, and listed on the Kuwait Stock Exchange. The address of the Parent Company's registered office is P.O. Box 23982, Safat 13100 - State of Kuwait.

The consolidated financial statements of the Parent Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Board of Directors on 21 February 2015, and are issued subject to the approval of the Annual General Assembly of the Shareholders' of the Parent Company. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance.

The principal activities of the Parent Company comprise the following:
1. Owning stocks and shares in Kuwaiti or non-Kuwaiti companies and shares in Kuwaiti or non-Kuwaiti limited liability companies and participating in the establishment of, lending to and managing of these companies and acting as a guarantor for these companies.
2. Lending money to companies in which it owns shares, guaranteeing them with third parties where the holding parent company owns 20% or more of the capital of the borrowing company.
3. Owning industrial equities such as patents, industrial trademarks, royalties, or any other related rights and franchising them to other companies or using them within or outside the state of Kuwait.
4. Owning real estate and moveable properties to conduct its operations within the limits as stipulated by law.
5. Employing excess funds available with the parent company by investing them in investment and real estate portfolios managed by specialized companies.

The major shareholder of the Parent Company is Al Futtooh Holding Company K.S.C. (Closed).

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss, financial assets available for sale, derivative financial instruments, and investment properties that have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

Further, certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications were made in order to more appropriately present certain items of consolidated income statement. Such reclassifications do not affect previously reported assets, liabilities, equity and profit for the year. The reclassifications are not material to the consolidated financial statements.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional currency of the Parent Company, and all values are rounded to the nearest thousand except when otherwise indicated.

Statement of compliance
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and applicable requirements of Ministerial Order No. 18 of 1990.

Changes in accounting policy and disclosures
The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of the following amendments, new standards and interpretations effective as of 1 January 2014:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (effective for annual periods beginning on or after 1 January 2014)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group, as none of the entities in the Group qualify to be an investment entity under IFRS 10.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policy and disclosures (continued)

IAS 36: Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendment) (effective for annual periods beginning on or after 1 January 2014)
These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. Though these amendments have not resulted in any additional disclosures currently, the same would continue to be considered for future disclosures.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (Amendment) (effective for annual periods beginning on or after 1 January 2014)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have not resulted in any impact on the financial position or performance of the Group.

IFRIC 21: Levies
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

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

Standards issued but not yet effective
The following new and amended IASB Standards have been issued but not yet mandatory, and have not been adopted by the Group:

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 introduces new requirements for classification and measurement, impairment, and hedge accounting. 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 consolidated financial statements, when adopted.

IFRS 15 – Revenue from Contracts with customers
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 14 Regulatory Deferral Accounts
IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the consolidated statement of financial position and present movements in these account balances as separate line items in the consolidated income statement or consolidated statement of comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its consolidated financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

Annual improvements for 2010-2012 and 2011-2013 cycle which are effective from 1 July 2014 are not expected to have a material impact on the Group.

The Group intends to adopt those standards when they become effective. Additional disclosures will be made when these standards will become effective.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (investees which are controlled by the Parent Company, together the "Group") as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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 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 interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into 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. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in consolidated income statement
- Reclassifies the parent's share of components previously recognised in OCI to consolidated income statement or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)
The subsidiaries of the Group are as follows:

Name of company	*Country of incorporation*	*Principal activities*	*Effective interest as at 31 December **	
			2014	*2013*
Directly held				
United Gulf Bank B.S.C. ("UGB")	Bahrain	Investment banking	**97%**	97%
Burgan Bank S.A.K. ("Burgan")	Kuwait	Banking	**63%**	60%
United Real Estate Company K.S.C.P. ("URC")	Kuwait	Real Estate	**70%**	66%
United Industries Company K.S.C. (Closed) ("UIC")	Kuwait	Industrial	**78%**	73%
United Networks Company K.S.C. (Closed) ("UNC")	Kuwait	IT service provider	**62%**	63%
Overland Real Estate Company W.L.L. ("Overland")	Kuwait	Real estate	**95%**	94%
Pulsar Knowledge Centre	India	Consultancy	**100%**	100%
United Gulf Management Incorporation	USA	Asset management	**100%**	100%
United Gulf Management Limited	United Kingdom	Asset management	**100%**	100%
Held through Group companies				
United Towers Company K.S.C. (Closed)	Kuwait	Real Estate	**61%**	60%
KAMCO Real Estate Yield Fund (a)	Kuwait	Fund	**66%**	-
Ikarus United for Marine Services Company S.A.K. (Closed)	Kuwait	Marine services	**60%**	-
North Africa Holding Company K.S.C. (Closed) ("NAH") (b)	Kuwait	Investments	**49%**	49%
Takaud Savings & Pensions Company B.S.C.	Bahrain	Pension and savings	**100%**	100%
SACEM Industries S.A.	Tunisia	Manufacturing	**98%**	100%
Structured entities ("SPVs") treated as subsidiaries				
Kuwait Projects Company (Cayman)	Cayman Islands	Special purpose entity	**100%**	100%
UBC Ventures W.L.L.	Bahrain	Special purpose entity	**99%**	99%
Held through UGB				
KAMCO Investment Company K.S.C.P. ("KAMCO")	Kuwait	Asset management	**86%**	86%
FIM Bank P.L.C. ("FIM Bank") (Note 25)	Malta	Banking	**81%**	50%
Hatoon Real Estate Company W.L.L.	Kuwait	Real estate	**98%**	98%
Syria Gulf Investment Company	Syria	Investment banking	**99%**	99%
United Gulf Financial Services North Africa Holding Company	Tunisia	Brokerage and investment banking	**85%**	85%
Al Janah Holding Company K.S.C. (Closed)	Kuwait	Marketing	**99%**	99%
Al Zad Real Estate W.L.L.	Kuwait	Real estate	**99%**	99%
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	Real estate	**100%**	100%
First North Africa Real Estate Company W.L.L.	Kuwait	Real estate	**100%**	100%
Al Raya Real Estate Projects W.L.L.	Kuwait	Real estate	**100%**	100%
Orange Real Estate Company W.L.L.	Kuwait	Real estate	**100%**	100%
Al Rawabi International Real Estate Company K.S.C. (Closed)	Kuwait	Real estate	**99%**	99%
First Homes Real Estate Company W.L.L. (c)	Kuwait	Real estate	**-**	99%
KAMCO GCC Opportunistic Fund	Bahrain	Fund	**100%**	100%
Kuwait Private Equity Opportunities Fund	Kuwait	Fund	**71%**	66%
Held through Burgan				
Jordan Kuwait Bank P.L.C.	Jordan	Banking	**51%**	51%
United Financial Investment Company	Jordan	Brokerage	**50%**	50%
Algeria Gulf Bank S.P.A.	Algeria	Banking	**95%**	95%
Bank of Baghdad P.J.S.C.	Iraq	Banking	**52%**	52%
Tunis International Bank S.A.	Tunisia	Banking	**87%**	87%
Ejara Leasing Company	Jordan	Leasing	**100%**	100%
Baghdad Brokerage Company	Iraq	Banking	**52%**	52%

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Name of company	*Country of incorporation*	*Principal activities*	*Effective interest as at 31 December **	
			2014	*2013*
Burgan Bank A.S.	Turkey	Banking	**99%**	99%
Burgan Finansal Kiralama A.S.	Turkey	Leasing	**99%**	99%
Burgan Yatirim Menkul Degerler A.S.	Turkey	Brokerage	**99%**	99%
Burgan Portfoy Yonetimi A.S.	Turkey	Asset management	**99%**	99%
Burgan Tier 1 Financing Limited (a) (note 17)	Dubai	Special Purpose entity	**100%**	-
Held through URC				
United Building Company S.A.K. (Closed)	Kuwait	Real estate	**98%**	98%
United Building Company Egypt S.A.E.	Egypt	Real estate	**100%**	100%
Tamleek United Real Estate Company W.L.L.	Kuwait	Real estate	**99%**	99%
Souk Al -Muttaheda Joint venture – Salhia	Kuwait	Real estate	**92%**	92%
Kuwait United Construction Management Company W.L.L.	Kuwait	Facilities management	**96%**	96%
United Facilities Management Company S.A.K. (Closed)	Kuwait	Facilities management	**97%**	97%
United Lebanese Real Estate Company S.A.L (Holding)	Lebanon	Real estate	**100%**	100%
United Areej Housing Company W.L.L	Jordan	Real estate	**100%**	100%
Al Reef Real Estate Company S.A.O. (Closed)	Oman	Real estate	**100%**	100%
United Ritaj for Touristic Investment S.A.E. (Closed)	Egypt	Touristic development	**100%**	100%
United Facilities Development Company K.S.C (Closed)	Kuwait	Real estate	**64%**	64%
Mena Homes Real Estate Company K.S.C (Closed)	Kuwait	Real estate	**97%**	97%
United Company for Investment W.L.L	Syria	Real estate	**95%**	95%
United Real Estate Investment Company S.A.E	Egypt	Investment	**100%**	100%
Manazel United Real Estate Company S.A.E	Egypt	Real estate	**81%**	81%
Aswar United Real Estate Company S.A.E	Egypt	Real estate	**100%**	100%
Al Dhiyafa Holding Company K.S.C (Closed)	Kuwait	Real estate	**87%**	87%
United Real Estate Jordan P.S.C.	Jordan	Real estate	**100%**	100%
Greenwich Quay Limited	United Kingdom	Real estate	**100%**	100%
United Real Estate Company W.L.L.	Syria	Real estate	**90%**	90%
Universal United Real Estate W.L.L	Kuwait	Real estate	**63%**	63%
Gulf Egypt for Hotels & Tourism S.A.E	Egypt	Real estate	**100%**	100%
United Gulf Realty International Limited	British Virgin Islands	Real estate	**100%**	100%
Bhamdoun United Real Estate Company S.A.L	Lebanon	Hotel management	**100%**	100%
Rouche Holding Company S.A.L	Lebanon	Real estate	**100%**	100%
Al Dhiyafa – Lebanon SAL (Holding Company)	Lebanon	Real estate	**100%**	100%
United Lebanese Real Estate Company S.A.L	Lebanon	Real estate	**100%**	100%
Abdali Mall Company P.S.C.	Jordan	Real estate	**60%**	60%
Held through UIC				
Kuwait National Industrial Projects Company K.S.C. (Closed)	Kuwait	Industrial Investment	**100%**	100%
Eastern Projects General Trading Company W.L.L.	Kuwait	Industrial Investment	**99%**	99%
United Gulf Industries Company W.L.L	Saudi Arabia	Industrial Investment	**100%**	100%

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Name of company	*Country of incorporation*	*Principal activities*	*Effective interest as at 31 December **	
			2014	*2013*
Held through UNC				
Gulfsat Communications Company K.S.C. (Closed)	Kuwait	Satellite services	**82%**	82%
Gulfnet Communications Company W.L.L.	Kuwait	Internet services	**99%**	99%
Held through Overland				
Amaken United Real Estate Company	Kuwait	Real estate	**76%**	74%
Kuwait United Consultancy Company K.S.C. (Closed) (note 26)	Kuwait	Consultancy	**100%**	98%
United Industrial Gas K.S.C. (Closed)	Kuwait	Industrial Investment	**100%**	100%
Held Through FIM Bank				
London Forfaiting Company Limited	UK	Forfaiting	**100%**	100%
FIM Factors B.V.	Netherlands	Holding Company	**100%**	100%
FIM Business Solutions Limited	Malta	IT Services Provider	**100%**	100%
FIM Property Investment Limited	Malta	Property Management	**100%**	100%
London Forfaiting International Limited	UK	Holding Company	**100%**	100%
London Forfaiting Americas Inc.	USA	Marketing	**100%**	100%
London Forfaiting do Brasil Ltda	Brazil	Marketing	**100%**	100%
Mena Factors Limited	UAE	Factoring	**100%**	100%
India Factoring and Finance Solutions Private Limited (d)	India	Factoring	**100%**	-
CIS Factors Holdings B.V. (d)	Netherland	Factoring	**100%**	-
FIM Holdings (Chile) S.P.A.	Chile	Factoring	**100%**	-
First factors S.A.	Chile	Factoring	**51%**	-
Held through KAMCO Real Estate Yield Fund				
Al Nuzoul Holding Company K.S.C. (Closed) (e)	Kuwait	Marketing	**99%**	99%
KAMCO Real Estate Investment Company S.P.C. (e)	Bahrain	Real Estate	**99%**	99%
Al Ahmediya Real Estate Limited Liability Company (a)	Saudi Arabia	Real Estate	**99%**	-
Held through Pulsar Knowledge Centre				
PKC Advisory Services JLT (a)	UAE	Consultancy	**100%**	-
Held through NAH				
Egyptian International Medical Center S.A.E	Egypt	Pharmaceutical	**51%**	51%
Ecole de Formation Pratique aux Metiers	Algeria	Services	**100%**	100%
Assoufid B.V.	Netherlands	Real estate	**85%**	85%
Stavebni S.A.	Morocco	Construction	**85%**	85%
EIMC United Pharmaceutical	Egypt	Pharmaceutical	**61%**	61%

* For directly held subsidiaries effective interest represents effective ownership of the Group. For indirectly held subsidiaries, effective interest represents effective ownership of the respective Group subsidiaries.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

(a) These companies were established during the year.

(b) The Group has determined that it has de facto control over NAH. The factors considered by the Group included the voting shares, the relative size and dispersion of holdings by other shareholders, attendance and voting patterns at previous shareholders' meetings and board meetings and the sharing of key management positions between the Group and NAH.

(c) This company has been disposed off during the year.

(d) These companies were previously treated as 'investment in associates' (note 8). During the year, FIM Bank acquired additional interest in these companies, thus obtained control and classified them as subsidiaries.

(e) These companies were previously held through KAMCO and have been reorganised within the Group during the year.

No additional disclosures have been made for subsidiaries referred to in notes (a) to (e) above as these are not material to the consolidated financial statements of the Group.

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in consolidated income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non controlling interest, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets
Initial recognition and measurement
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, financial assets available for sale, financial assets held to maturity, loans and receivables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is received from or delivered to the counterparty. Changes in fair value between the trade date and settlement date are recognised in the consolidated income statement or in consolidated statement of comprehensive income through cumulative changes in fair values 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 regulations or conventions in the market place.

The Group's financial assets include cash in hand and at banks, treasury bills and bonds, loans and advances, financial assets at fair value through profit or loss, financial assets available for sale, financial assets held to maturity and certain balances included in other assets.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss includes, financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated income statement.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, financial assets available for sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)
Financial assets available for sale
Financial assets available for sale include equity and debt securities. Equity investments classified as available for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated income statement, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated income statement. Financial assets available for sale whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Interest earned whilst holding financial assets available for sale is reported as interest income using the effective interest rate method.

The Group evaluates whether the ability and intention to sell its financial assets available for sale in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available for sale category, the carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to consolidated income statement over the remaining life of the investment using the effective interest rate method. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated income statement.

Financial assets held to maturity
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement.

The Group's loans and receivables comprise of cash in hand and at banks, treasury bills and bonds, loans and advances and certain balances included in other assets.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)
Derecognition of financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset 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 of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets
The Group assesses at each reporting date whether there is any objective evidence that a 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. Evidence of impairment may include indications that the borrowers or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets available for sale
For financial assets available for sale, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Financial assets available for sale (continued)

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other income in consolidated income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

The Group classifies its financial liabilities at amortized cost. Due to banks and other financial institutions, deposits from customers, loans payable, bonds, medium term notes, financial guarantee contracts, derivative financial instruments and other liabilities are classified as financial liabilities at amortized cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement
The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest expense in the consolidated income statement.

Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified borrower fails to make a payment when due in accordance with the terms of a debt instrument. In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

Financial guarantee contracts are recognised initially as a liability at fair value, being the premium received, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability 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 the consolidated income statement.

Repurchase and resale agreements
Assets sold with a simultaneous commitment to repurchase at a specified future date at an agreed price (repos) are not derecognised in the consolidated statement of financial position. Amounts received under these agreements are treated as interest bearing liabilities and the difference between the sale and repurchase price treated as interest expense using the effective interest method.

Assets purchased with a corresponding commitment to resell at a specified future date at an agreed price (reverse repos) are not recognised in the consolidated statement of financial position. Amounts paid under these agreements are treated as interest earning assets and the difference between the purchase and resale price treated as interest income using the effective interest method.

Offsetting
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Renegotiated loans
In the event of a default, the Group seeks to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. When the terms and conditions of these loans are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these loans remain past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loan continues to be subject to an individual or collective impairment assessment calculated using the loan's original effective interest rate.

Cash and cash equivalents
For the purpose of the consolidated cash flow statement, cash and cash equivalents includes cash and bank balances, deposits and other short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities up to three months from the date of acquisition and that are subject to an insignificant risk of change in value.

Derivative financial instruments and hedge accounting
The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks including exposures arising from forecast transactions and firm commitments.

Derivatives are recorded at fair value. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the consolidated statement of financial position. For hedges, which do not qualify for hedge accounting and for held for trading derivatives, any gains or losses arising from changes in the fair value of the derivative are taken directly to the consolidated income statement.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated income statement. In order to manage particular risks, the Group applies hedge accounting for transactions, which meet the specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk)
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges
The change in the fair value of hedging derivative is recognised in the consolidated income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated income statement over the remaining term to maturity. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Fair value hedges (continued)
If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated income statement. The Group uses forward foreign exchange contracts to hedge against changes in fair value of its foreign currency exposures.

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while any ineffective portion is recognised immediately in the consolidated income statement.

Amounts recognised as other comprehensive income are transferred to the consolidated income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss. The Group uses interest rate swaps to hedge its cash flows on variable rate loans.

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

The Group uses forward currency contracts to hedge its exposure to foreign exchange risk on its investments in foreign subsidiaries. Gains or losses on the fair valuation of this forward currency contract are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in the subsidiaries.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement
The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 32.

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.

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories
Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition and are determined on the weighted average basis. Net realisable value is based on estimated selling price in the ordinary course of the business, less any further costs expected to be incurred on completion and disposal. Inventories are included as part of other assets.

Properties held for trading
Properties acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, are held as properties held for trading and are measured at lower of cost and net realisable value.

Cost includes free hold and leasehold rights for land, amount paid to contractors for construction, borrowing costs, planning and design costs, cost of site preparation , professional fees for legal services, property transfer taxes, construction overheads and other related costs.

Net realisable value is the estimated selling price in the ordinary course of business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated cost of sale. Non refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when paid.

The cost of properties held for trading recognised in consolidated income statement on disposal is determined with reference to the specific cost incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold. Write down of properties held for trading are charged to other operating expenses.

Investment in associates and joint ventures
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated income statement reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated income statement outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates and joint ventures (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'impairment of investments' in the consolidated income statement.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in consolidated income statement.

Investment properties
Investment properties comprise completed property and property under construction or re-development held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment properties when the definition of investment properties is met and it is accounted for as a finance lease.

Investment properties are measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of existing investment properties at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment properties is stated at fair value. Gains or losses arising from changes in the fair values are included in the consolidated income statement in the year in which they arise. For the purposes of these consolidated financial statements the assessed fair value is:

- Reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or minimum lease payments.
- Increased by the carrying amount of any liability to the holder of leasehold or freehold property included in the consolidated statement of financial position as a finance lease obligation.

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

Gains or losses on the disposal of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period consolidated financial statements.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated income statement.

Land is not depreciated. Depreciation is computed on a straight-line basis to their residual values over the estimated useful lives of other property, plant and equipment as follows:

Buildings	10 to 50 years
Furniture and fixtures	3 to 10 years
Motor vehicles	3 to 5 years
Plant and equipment	3 to 20 years
Aircraft	15 years

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Leasehold improvements are depreciated over the period of lease.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property, plant and equipment.

The carrying values of property, plant and 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. The estimated useful lives of intangible assets are as follows:

Licenses	10 years to indefinite
Brand name	Indefinite
Customer contracts and core deposits	4 to 10 years

Licenses renewable at the end of the expiry period at little or no cost to the Group are assumed to have indefinite useful life.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions
General
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

Contingent liabilities recognised in a business combination
A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of: the amount that would be recognised in accordance with the general guidance for provisions above in accordance with 'IAS 37: Provisions, Contingent Liabilities and Contingent Assets', or the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition in accordance with 'IAS 18: Revenue'.

End of service indemnity
Provision is made for amounts payable to employees under the Kuwaiti Labour Law, employee contracts and applicable labour laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the reporting date.

Treasury shares
Treasury shares consist of the Parent 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 voluntary reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any provisional recorded losses in order of reserves, retained earnings and treasury share reserve account. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Share based payment transactions
The Group operates an equity-settled, share-based Employee Stock Option Plan. Under the terms of the plan, stock options are granted to permanent employees. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value of the stock options is determined using Black-Scholes option pricing model further details of which are given in note 18. The fair value of the stock options is recognised as an expense over the vesting period with corresponding effect to equity.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and / or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and / or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payment transactions (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding stock options is reflected as additional share dilution in the computation of diluted earnings per share (note 24).

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 ruling 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 prevailing on that date. Any resultant gains or losses are recognised in the consolidated income statement.

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 directly 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 income statement, all differences are recognised in the consolidated income statement.

Assets (including goodwill) and liabilities, both monetary and non-monetary, of foreign operations are translated 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 arising on translation are recognised in the other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated income statement.

Other reserve
Other reserve is used to record the effect of changes in ownership interest in subsidiaries, without loss of control.

Segment information
A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

Income recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable. The Group assesses it revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Dividend income
Dividend income is recognised when the right to receive payment is established.

Fees and commission
Fees and commission earned for the provision of services over a period of time are accrued over that period. These fees include credit related fee and other management fee. Loan commitment fee, for loans likely to be drawn down, and originating fee that are an integral part of the effective interest rate of a loan are recognised (together with any incremental cost) as an adjustment to the effective interest rate on loan. Other fees and commission are recorded when the services have been provided.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Income recognition (continued)

Interest income and expense
Interest income and expense are recognised in the consolidated income statement for all interest bearing instruments on effective interest rate basis. The calculation includes all contractual terms of the financial instrument and includes any fee or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

Once a financial instrument categorised, as financial assets available for sale, financial assets held to maturity, and loans and receivables is impaired, interest is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Digital satellite network services
Digital satellite network services represent revenue from direct-to-home subscription, cable subscription, advertising activities, receiving and broadcasting of space channels against periodic subscriptions and providing internet services, and are recognised as and when the services are provided or rendered.

Hospitality and real estate income
Hospitality and real estate income includes hotel and rental income. Rental income is recognised on a straight-line basis over the lease term. Hotel income represents the invoiced value of goods and services provided.

Manufacturing industries income
Manufacturing industries income is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer usually on delievery of the goods and the amount of revenue can be measured reliably.

Non-current assets held for sale and discontinued operations
Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit, even when the Group retains a non controlling interest in the subsidiary after the sale. The resulting profit or loss is reported separately in the consolidated income statement.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessor
Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

Group as a lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

A property interest that is held by the Group under an operating lease may be classified and accounted for as an investment property when the property otherwise meets the definition of an investment property, evaluated property by property, and based on management's intention. The initial cost of a property interest held under a lease and classified as an investment properties is determined at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount is recognised as a liability.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated income statement, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

Taxation
National Labour Support Tax (NLST)
The Parent Company calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the period. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

Kuwait Foundation for the Advancement of Sciences (KFAS)
The Parent Company calculates the contribution to KFAS at 1% in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

Zakat
Contribution to Zakat is calculated at 1% of the profit of the Parent Company in accordance with the Ministry of Finance resolution No. 58/2007.

Taxation on overseas subsidiaries
Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate. Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Taxation on overseas subsidiaries (continued)
The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax assets and liabilities are measured using tax rates and applicable legislation at the reporting date.

Dividends on ordinary shares
Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Parent Company's shareholders.

Dividends for the year that are approved after the consolidated statement of financial position date are disclosed as an event after the consolidated statement of financial position date.

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 the consolidated statement of financial position.

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

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

Significant accounting judgments, estimates and assumptions

Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of financial assets
On acquisition of financial assets, management decides whether it should be classified as investments at fair value through profit or loss or investments available for sale or loans and receivables or held to maturity.

Impairment of equity financial assets available for sale
The Group treats equity financial assets 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 judgment.

Deferred tax assets
Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Operating Lease – Group as lessor
The Group has entered into commercial property leases on its investment properties portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions (continued)

Estimation uncertainty and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of goodwill and other intangibles with indefinite useful lives
The Group determines whether goodwill and other intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use or fair value less cost to sell of the cash-generating units to which the goodwill and other intangibles with indefinite useful lives are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for credit losses
The Group reviews its problem loans and advances on a quarterly basis to assess whether a provision for credit losses should be recorded in the consolidated income statement. 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 (note 4).

Fair values of assets and liabilities including intangibles
Considerable judgement by management is required in the estimation of the fair value of the assets including intangibles with definite and indefinite useful life, liabilities and contingent liabilities acquired as a result of business combination.

Collective impairment provision on loans and advances
In addition to specific provisions against individually significant loans and advances, the Group also makes a collective impairment provision against loans and advances which is not specifically identified against a loan. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

This internal grading take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

Fair value measurement of financial instruments
Where the fair value of financial assets recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions (continued)

Estimation uncertainty and assumptions (continued)

Valuation of investment properties
Fair value of investment properties are assessed by independent real estate appraisers. Two main methods used to determine the fair value of property interests in investment properties are; (a) formula based discounted cash flow analysis and (b) comparative analysis, as follows:

a) Formula based discounted cash flow, is based on a series of projected free cash flows supported by the terms of any existing lease and other contracts and discounted at a rate that reflects the risk of the asset.

b) Comparative analysis is based on the assessment made by an independent real estate appraiser using values of actual deals transacted recently by other parties for properties in a similar location and condition, and based on the knowledge and experience of the real estate appraiser.

Volatility in the global financial system is reflected in commercial real estate markets. There was a significant reduction in transaction volumes in 2012 and, to a lesser extent, in 2013. Therefore, in arriving at their estimates of market values as at 31 December 2013 and 31 December 2014, valuers used their market knowledge and professional judgment and did not rely solely on historical transactional comparables. In these circumstances, there was a greater degree of uncertainty in estimating the market values of investment properties than would exist in a more active market.

The significant methods and assumptions used by valuers in estimating fair value of investment property are stated in note 10.

Techniques used for valuing investment properties
The discounted cash flow method involves the projection of a series of periodic cash flows either to an operating property or a development property. To this projected cash flow series, an appropriate, market derived discount rate is applied to establish an indication of the present value of the income stream associated with the property. The calculated periodic cash flow is typically estimated as gross rental income less vacancy and collection losses and less operating expenses/outgoings. A series of periodic net operating incomes, along with an estimate of the reversion/terminal/exit value (which uses the traditional valuation approach) anticipated at the end of the projection period, are discounted to present value. The aggregate of the net present values equals the fair value of the property.

The Residual Method (or Hypothetical Development Approach) to estimating fair value is a combination of the Capitalisation (income) approach and a Cost approach (summation). The Residual Method is defined as: “A method of determining the value of a property which has potential for development, redevelopment or refurbishment. The estimated total cost of the work, including fees and other associated expenditures, plus allowance for interest, developer’s risk and profit, is deducted from the gross value of the completed project. The resultant figure is then adjusted back to the date of valuation to give the residual value.”

3 CASH IN HAND AND AT BANKS

	2014 *KD 000's*	*2013* *KD 000's*
Cash and bank balances	**983,976**	700,831
Deposits with original maturities up to three months	**528,652**	669,962
Cash and cash equivalents	**1,512,628**	1,370,793
Add: deposits with original maturities exceeding three months	**3,051**	2,747
	1,515,679	1,373,540

4 LOANS AND ADVANCES

The composition of loans and advances, classified by type of borrower, is as follows:

	2014 *KD 000's*	*2013* *KD 000's*
Corporate	**3,601,488**	3,269,566
Banks and financial institutions	**760,808**	682,541
Retail	**554,876**	517,317
	4,917,172	4,469,424
Less: provision for credit losses	**(152,550)**	(135,367)
	4,764,622	4,334,057

The movement in the provision for credit losses (excluding provision for credit losses relating to accounts receivable) is as follows:

	2014 *KD 000's*	*2013* *KD 000's*
As at 1 January	**146,230**	142,898
Upon acquisition of a subsidiary *	**-**	5,049
Exchange adjustments	**1,020**	(5,878)
Amounts written off	**(40,313)**	(55,025)
Provision for credit losses (see below)	**57,682**	59,186
As at 31 December	**164,619**	146,230

* Loans and advances were acquired at fair value (note 25).

Provision for credit losses (in the table above) includes provision for non-cash facilities amounting to KD 12,069 thousand (2013: KD 10,863 thousand). Provision for non-cash facilities is included in other liabilities (note 16).

Provision for credit losses relating to accounts receivable for the year amounts to KD Nil (reversal of credit losses for 2013: KD 536 thousand).

Interest income on impaired loans and advances is immaterial.

5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014	*2013*
	KD 000's	*KD 000's*
Financial assets held for trading		
Quoted equity securities	**12,952**	14,481
Quoted debt securities	**8,007**	12,143
	20,959	26,624
Financial assets designated at fair value through profit or loss		
Quoted equity securities	**20,893**	8,643
Unquoted debt securities	**5,270**	4,991
Managed funds	**19,628**	8,323
	66,750	48,581

Refer note 31.4.3 for geographical distribution of equity instruments and note 32 for fair value determination.

6 FINANCIAL ASSETS AVAILABLE FOR SALE

	2014	*2013*
	KD 000's	*KD 000's*
Quoted financial assets		
Equities	**67,454**	60,602
Debt securities	**133,280**	168,399
	200,734	229,001
Unquoted financial assets		
Equities	**62,459**	89,683
Managed funds	**85,387**	82,397
Debt securities	**16,197**	26,838
	164,043	198,918
	364,777	427,919

Included under financial assets available for sale are unquoted financial assets amounting to KD 20,671 thousand (2013: KD 23,141 thousand) that are carried at cost, less impairment if any, due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these financial assets. There is no active market for these financial assets and the Group intends to hold them for the long term.

Management has performed a review of its financial assets available for sale to assess whether impairment has occurred in the value of these investments and recorded an impairment loss of KD 3,078 (2013: KD 4,400) in the consolidated income statement.

Refer note 31.4.3 for geographical distribution of equity instruments and note 32 for fair value determination.

7 OTHER ASSETS

	2014	*2013*
	KD 000's	*KD 000's*
Net accounts receivable	**117,031**	135,883
Accrued interest and other income receivable	**57,602**	61,938
Prepayments	**28,821**	40,609
Assets pending sale *	**90,371**	49,484
Other	**65,187**	66,061
	359,012	353,975

* The fair value of real estate assets included in assets pending for sale are based on valuations performed by accredited independent valuers by using market comparable method. As the significant valuation inputs used are based on unobservable market data these are classified under level 3 fair value hierarchy. However, the impact on the consolidated income statement would be immaterial if the relevant risk variables used to fair value were altered by 5%.

8 INVESTMENT IN ASSOCIATES

Name of company	*Country of incorporation*	*Principal activities*	*Effective interest* ***2014***	*2013*	*Carrying value* ***2014 KD 000's***	*2013 KD 000's*
Qurain Petrochemical Industries Company K.S.C.P. ("QPIC")	Kuwait	Petrochemical activities	**31%**	31%	**139,336**	130,306
Gulf Insurance Group K.S.C.P. ("GIG")	Kuwait	Insurance	**46%**	45%	**73,719**	70,350
Advance Technology Company K.S.C.P. ("ATC")	Kuwait	Trading	**29%**	37%	**39,559**	50,190
Abdali Boulevard Company P.S.C.	Jordan	Real estate	**40%**	40%	**33,926**	28,776
Al Sheeb Real Estate W.L.L. (b)	Kuwait	Real Estate	**31%**	-	**28,885**	-
United Education Company K.S.C. (Closed)	Kuwait	Education	**44%**	44%	**21,063**	21,234
Burgan Equity Fund (a)	Kuwait	Fund	**15%**	22%	**11,580**	18,133
Residences Dar Saada (c)	Morocco	Real Estate	**-**	10%	**-**	11,605
Al-Fujeira Real Estate Limited	U.A.E	Real estate	**50%**	50%	**7,215**	7,085
Manafae Investment Company K.S.C.P.	Kuwait	Investment	**33%**	33%	**5,844**	5,609
Kandil Glass S.A.E.	Egypt	Manufacturing	**50%**	50%	**5,117**	4,914
First Real Estate Investment Company K.S.C. (Closed) (b)	Kuwait	Real estate	**20%**	-	**4,406**	-
United Capital Transport Company K.S.C. (Closed)	Kuwait	Services	**40%**	40%	**4,291**	4,373
Al Sharq Financial Brokerage company (a)	Kuwait	Brokerage	**19%**	19%	**3,780**	3,758
Kuwait Education Fund	Kuwait	Fund	**21%**	21%	**3,756**	3,406
Middle East Payment Services Co. (b)	Jordan	Credit Card & ATM Services	**30%**	-	**1,877**	-
North Star 88 SPE (b)	Bahrain	Real Estate	**20%**	-	**1,816**	-
Kuwait Hotels Company K.S.C.P.	Kuwait	Hotels	**32%**	32%	**1,595**	1,891
Syria Gulf Bank S.A.	Syria	Banking	**35%**	35%	**1,442**	1,771
Royal Capital Company P.S.C.	U.A.E	Asset Management	**35%**	35%	**1,413**	1,397
The Egyptian Company for Factoring S.A.E	Egypt	Factoring	**40%**	40%	**172**	912
SSH Dar International W.L.L.	Kuwait	Engineering	**29%**	29%	**1,639**	817
Brasil Factors S.A.	Brazil	Factoring	**40%**	40%	**655**	579
Arab Leadership Academy (a)	Kuwait	Education	**15%**	15%	**126**	-
Saidal NorAH Industries SPA	Algeria	Manufacturing	**49%**	49%	**89**	89
Housing Finance Company K.S.C.P. ("Iskan") (e)	Kuwait	Finance	**-**	28%	**-**	4,784
India Factoring & Finance Solutions Private Limited (d)	India	Factoring	**-**	49%	**-**	4,702
Levant Factors S.A.L	Lebanon	Factoring	**50%**	50%	**-**	181
CIS Factors Holdings B.V. (d)	Netherland	Factoring	**-**	40%	**-**	89
					393,301	376,951

(a) Significant influence through board representation.

(b) These companies became associates of the Group during the year.

(c) During the year Residences Dar Saada went for an Initial Public Offering (IPO), which resulted in a dilution of equity interest of the Group and loss of significant influence. Residences Dar Saada has thereafter been classified as 'financial assets available for sale'.

(d) During the year FIM Bank, a subsidiary of the Group, acquired additional interest in these companies, thus obtained control and classified them as subsidiaries (note 2).

(e) During the year Overland, a subsidiary of the Group, partially disposed its interest in Iskan upon which the Group lost significant influence on Iskan. Subsequent to the disposal, the remaining interest in Iskan has been classified as 'financial assets available for sale'.

8 INVESTMENT IN ASSOCIATES (continued)

Investment in associates include quoted associates with a carrying value of KD 260,053 thousand (2013: KD 263,130 thousand) having quoted market value of KD 162,723 thousand (2013: KD 178,630 thousand). Summarized financial information of associates which are individually material to the Group before inter-company eliminations is as follows:

31 December 2014	*QPIC KD 000's*	*GIG KD 000's*	*ATC * KD 000's*
Associates' statement of financial position:			
Current assets	**51,903**	**189,527**	**85,565**
Non-current assets	**449,727**	**157,692**	**25,488**
Current liabilities	**22,916**	**126,940**	**54,289**
Non-current liabilities	**74,834**	**118,421**	**16,936**
Equity	**403,880**	**101,858**	**39,828**
Equity attributable to shareholders of associates	**305,813**	**84,179**	**39,828**
Group's ownership interest	**31%**	**46%**	**29%**
Proportion of equity attributable to Group's ownership interest **	**94,802**	**38,722**	**11,550**
Associates' revenue and results:			
Income	**107,713**	**105,474**	**70,834**
Profit for the year	**37,116**	**13,857**	**3,540**
Group's share of the profit for the year	**10,259**	**5,485**	**717**
Dividends received during the year	**3,218**	**2,471**	**653**
Contingent liabilities and commitments	**17,232**	**6,986**	**35,243**

31 December 2013	*QPIC KD 000's*	*GIG KD 000's*	*ATC * KD 000's*
Associates' statement of financial position:			
Current assets	4,526	189,017	80,672
Non-current assets	331,519	131,411	23,672
Current liabilities	28,157	16,960	62,814
Non-current liabilities	20,474	208,173	3,280
Equity	287,414	95,295	38,250
Equity attributable to shareholders of associates	278,852	78,499	38,250
Group's ownership interest	31%	45%	37%
Proportion of equity attributable to Group's ownership interest **	86,444	35,325	14,152
Associates' revenue and results:			
Income	35,748	93,912	64,760
Profit for the year	28,021	12,043	4,545
Group's share of the profit for the year	4,997	4,586	1,676
Dividends received during the year	2,030	2,059	830
Contingent liabilities and commitments	11,920	4,182	27,551

* Income and profit is based on 12 months ending 30 September 2014 and 30 September 2013.

** Difference between carrying value and proportion of equity attributable to Group's ownership interest materially represents goodwill.

8 INVESTMENT IN ASSOCIATES (continued)

Other comprehensive income from individually material associates is not material to consolidated financial statements of the Group. Total comprehensive income therefore approximates profit for the year from associates.

Summarized financial information of all the individually immaterial associates before inter-company eliminations is as follows:

	2014 *KD 000's*	*2013* *KD 000's*
Associates' statement of financial position:		
Total assets	**727,715**	709,425
Total liabilities	**301,665**	487,047
Equity	**426,050**	222,378
Associates' revenue and results:		
Income	**130,861**	102,940
Profit (loss) for the year	**45,643**	(1,002)

9 INVESTMENT IN A MEDIA JOINT VENTURE

The Group owns 60.50% equity interest in Panther Media Group Limited ("PMGL") known as "OSN", a jointly controlled entity incorporated in Dubai and registered in the Dubai International Financial Center, engaged in providing satellite encrypted pay television services across the Middle East and North Africa region.

The Group's interest in PMGL is accounted for using the equity method. Summarized financial information of PMGL before inter-company eliminations is as follows:

	2014 *KD 000's*	*2013* *KD 000's*
Current assets	**71,968**	48,375
Non-current assets	**424,567**	409,009
Current liabilities	**85,832**	69,563
Non-current liabilities	**37,887**	45,733
Equity	**372,816**	342,088
Group's share of investment	**225,255**	206,690
Less: inter-group eliminations	**(62,557)**	(62,557)
	162,698	144,133

	2014 *KD 000's*	*2013* *KD 000's*
Income	**179,120**	139,486
Expenses	**(161,030)**	(129,043)
Profit for the year	**18,090**	10,443
Total comprehensive income for the year	**18,255**	10,246
Group's share of the profit for the year	**10,930**	6,310
Group's share of total comprehensive income for the year	**11,030**	6,191

9 INVESTMENT IN A MEDIA JOINT VENTURE (continued)

The Group's share in the joint venture's contingent liabilities and capital commitments as at 31 December 2014 amount to KD 5,396 thousand (2013: KD 5,452 thousand) and KD 103,806 thousand (2013: KD 94,197 thousand) respectively.

The Group's share in the joint venture's operating lease commitments as lessee amount to KD 11,258 thousand (2013: KD 11,255 thousand). Also, the Group's share in the joint venture's future aggregate minimum lease receipts under non-cancellable operating leases as lessor of transmission facilities amount to KD 58 thousand (2013: KD 84 thousand).

10 INVESTMENT PROPERTIES

	2014	*2013*
	KD 000's	*KD 000's*
Land for development	**62,654**	65,930
Projects under construction	**72,407**	52,019
Developed properties	**251,617**	244,612
	386,678	362,561

The movement in investment properties during the year was as follows:

	2014	*2013*
	KD 000's	*KD 000's*
As at 1 January	**362,561**	380,599
Additions	**26,758**	26,807
Disposals	**(5,009)**	(31,285)
Due to discontinued operation	**-**	(2,386)
Transfer to property, plant and equipment	**-**	(16,657)
Change in fair value	**2,295**	5,583
Exchange adjustments	**73**	(100)
As at 31 December	**386,678**	362,561

Valuation of lands for development, properties under construction and developed properties were conducted as at 31 December 2014 by independent appraisers with a recognised and relevant professional qualification and recent experience of the location and category of investment property being valued. The discounted future cash flow method or property market value method have been used as deemed appropriate considering the nature and usage of the property.

Profit related to investment properties carried at fair value is as follows:

	2014	*2013*
	KD 000's	*KD 000's*
Rental income	**22,819**	19,821
Direct operating expenses	**(3,418)**	(3,294)
Profit arising from investment properties carried at fair value	**19,401**	16,527

Included under investment properties are buildings constructed on land leased from the Government of Kuwait amounting to KD 101,264 thousand (2013: KD 101,210 thousand). The lease periods for the plots of land leased from the Government of Kuwait and others range from 10 to 50 years.

10 INVESTMENT PROPERTIES (continued)

Fair value hierarchy
The fair value measurement of investment properties has been categorised as level 3 fair value based on inputs to the valuation technique used.

The following main inputs have been used for valuations as at the reporting date:

	Offices		*Retail outlets*	
	2014	*2013*	***2014***	*2013*
	%	*%*	*%*	*%*
Average net initial yield	**10**	10	**10**	10
Reversionary yield	**11**	11	**11**	11
Inflation rate	**4**	4	**4**	4
Long-term vacancy rate	**10**	10	**10**	10
Long-term growth in real rental rates	**3**	3	**3**	3

Sensitivity analysis
The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of investment properties.

31 December 2014: **Significant unobservable inputs**	**Sensitivity**	**Impact on fair value** *KD 000's*
Average net initial yield	± 1%	**+37,049** **-32,757**
Reversionary yield	± 1%	**+32,872** **-27,953**
Inflation rate	± 25 basis points	**+7,701** **-8,350**
Long-term vacancy rate	± 1%	**-6,169** **+6,617**
Long-term growth in real rental rates	± 1%	**+11,262** **-10,787**

31 December 2013: Significant unobservable inputs	Sensitivity	Impact on fair value *KD 000's*
Average net initial yield	± 1%	+32,282 -28,581
Reversionary yield	± 1%	+25,678 -23,563
Inflation rate	± 25 basis points	+7,321 -8,201
Long-term vacancy rate	± 1%	-5,870 +6,928
Long-term growth in real rental rates	± 1%	+11,507 -10,856

11 INTANGIBLE ASSETS

	Goodwill ***KD 000's***	***Other intangibles*** ***KD 000's***	***Total*** ***KD 000's***
Gross carrying amount:			
As at 1 January 2014	165,011	220,401	385,412
Additions	5,631	257	5,888
Exchange adjustment	3,335	(13)	3,322
As at 31 December 2014	**173,977**	**220,645**	**394,622**
Accumulated amortisation:			
As at 1 January 2014	-	(50,760)	(50,760)
Charge for the year	-	(9,886)	(9,886)
As at 31 December 2014	**-**	**(60,646)**	**(60,646)**
Net carrying amount:			
As at 31 December 2014	**173,977**	**159,999**	**333,976**

	Goodwill *KD 000's*	*Other intangibles* *KD 000's*	*Total* *KD 000's*
Gross carrying amount:			
As at 1 January 2013	172,060	221,382	393,442
Arising on acquisition of subsidiaries (note 25)	-	390	390
Decrease due to discontinued operation	(6,694)	-	(6,694)
Exchange adjustment	(355)	(1,371)	(1,726)
As at 31 December 2013	165,011	220,401	385,412
Accumulated amortisation:			
As at 1 January 2013	-	(40,962)	(40,962)
Charge for the year	-	(9,798)	(9,798)
As at 31 December 2013	-	(50,760)	(50,760)
Net carrying amount:			
As at 31 December 2013	165,011	169,641	334,652

11 INTANGIBLE ASSETS (continued)

Goodwill
The carrying amount of goodwill allocated to each cash-generating unit is disclosed under segment information (note 30). The recoverable amount of each segment unit has been determined based on a value in use calculation, using cash flow projections approved by senior management covering a five-year period. The discount rates used range from 11.4% to 16% (2013: from 11.1% to 15.7%) applied to cash flow projections over a five year period. Cash flows beyond the five year period are extrapolated using a projected growth rate in a range of 3% to 4% (2013: from 3% to 4%).

The calculation of value in use for each segment unit is sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Market share assumptions
- Projected growth rates used to extrapolate cash flows beyond the budget period; and
- Inflation rates.

Interest margins:
Interest margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated market conditions.

Discount rates:
Discount rates reflect management's estimate of return on capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital (WACC).

Market share assumptions:
These assumptions are important because, as well as using industry data for growth rates, management assess how the unit's relative position to its competitors might change over the budget period.

Projected growth rates:
Assumptions are based on published industry research.

Inflation rates:
Estimates are obtained from published indices for countries where the Group operates.

Sensitivity to changes in assumptions
Management has determined that the potential effect of using reasonably possible alternatives as inputs to the valuation model does not materially affect the amount of goodwill using less favourable assumptions.

The net carrying amount and remaining useful life of intangible assets is as follows:

	Remaining useful life as at 31 December 2014	***2014 KD 000's***	*2013 KD 000's*
Intangibles with indefinite life:			
License and brand name	Indefinite	**95,956**	95,956
Intangibles with definite life:			
Licenses	5 to 23.5 years	**39,945**	45,274
Customer contracts and core deposits	up to 8 years	**24,098**	28,411

12 MATERIAL PARTLY-OWNED SUBSIDIARIES

The Group has concluded that Burgan and URC are the only subsidiaries with non controlling interests that are material to the Group. Financial information of subsidiaries that have material non controlling interests are provided below:

Accumulated balances of material non-controlling interests:

	2014	*2013*
	KD 000's	*KD 000's*
Burgan	**402,213**	337,691
URC	**64,824**	58,211

Profit allocated to material non controlling interests:

	2014	*2013*
	KD 000's	*KD 000's*
Burgan	**40,828**	33,949
URC	**2,342**	3,598

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

Summarised income statement for the year ended 31 December:

	2014		*2013*	
	Burgan	***URC***	*Burgan*	*URC*
	KD 000's	***KD 000's***	*KD 000's*	*KD 000's*
Income	**395,229**	**58,931**	253,559	50,864
Expenses	**(305,163)**	**(49,669)**	(205,802)	(38,739)
Income tax	**(17,361)**	**(1,536)**	(15,692)	(1,079)
Profit for the year	**72,705**	**7,726**	32,065	11,046
Total comprehensive income	**71,506**	**10,576**	13,593	10,467
Attributable to non controlling interests	**13,554**	**(1,528)**	13,154	(153)
Dividends payable to non controlling interests	**7,214**	**-**	3,983	-

Summarised statement of financial position as at 31 December:

	2014		*2013*	
	Burgan	***URC***	*Burgan*	*URC*
	KD 000's	***KD 000's***	*KD 000's*	*KD 000's*
Total assets	**7,751,424**	**521,028**	7,154,751	473,194
Total liabilities	**6,795,537**	**285,399**	6,534,924	254,474
Equity	**955,887**	**235,629**	619,827	218,720
Attributable to:				
Equity holders of material subsidiaries	**660,841**	**198,195**	475,458	194,406
Perpetual capital securities	**144,025**	**-**	-	-
Non controlling interests of material subsidiaries	**151,021**	**37,434**	144,369	24,314

12 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarised cash flow information for year ended 31 December:

	2014		*2013*	
	Burgan ***KD 000's***	***URC*** ***KD 000's***	*Burgan* *KD 000's*	*URC* *KD 000's*
Operating	**(155,565)**	**3,091**	369,505	(3,081)
Investing	**(71,271)**	**(31,086)**	(121,671)	(11,659)
Financing	**263,601**	**15,413**	(16,985)	19,813
Net increase (decrease) in cash and cash equivalents	**36,765**	**(12,582)**	230,849	5,073

13 LOANS PAYABLE

	2014 ***KD 000's***	*2013* *KD 000's*
By the Parent Company:		
Loans with maturity above 1 year	**40,000**	40,000
	40,000	40,000
By subsidiaries:		
Loans with maturity within 1 year	**317,190**	224,755
Islamic financing payables with maturity within 1 year	**-**	2,139
Loans with maturity above 1 year	**272,114**	293,350
	589,304	520,244
Less: inter-group borrowings	**(398,210)**	(326,712)
	231,094	233,532

14 BONDS

	2014	*2013*
	KD 000's	*KD 000's*
Issued by the Parent Company:		
Fixed interest of 4.75% per annum and maturing on 16 January 2016	**48,500**	48,500
Floating interest of 2.00% per annum above the CBK discount rate (capped at 1% above the fixed rate tranche per annum) and maturing on 16 January 2016	**31,500**	31,500
Issued by subsidiaries:		
Fixed interest of 5.65% per annum and maturing on 27 December 2022	**40,747**	40,703
Floating interest of 3.90% per annum above the CBK discount rate (capped at 6.65% per annum) and maturing on 27 December 2022	**58,394**	58,331
Fixed interest of 5.75% per annum and maturing on 24 June 2018	**36,450**	36,450
Floating interest of 3.25% per annum above the CBK discount rate and maturing on 24 June 2018	**23,550**	23,550
	239,141	239,034
Less: inter-group eliminations	**(9,000)**	(9,000)
	230,141	230,034

15 MEDIUM TERM NOTES

	2014	*2013*
	KD 000's	*KD 000's*
Euro medium term notes (EMTN) issued by the Parent Company through an SPE:		
Fixed rate notes amounting to US$ 500 million having a term of 7 years maturing on 17 October 2016 and carrying a coupon interest rate of 8.875% payable on a semi annual basis. The notes are listed on the London Stock Exchange.	**145,619**	139,869
Fixed rate notes amounting to US$ 500 million having a term of 10 years maturing on 15 July 2020 and carrying a coupon interest rate of 9.375% payable on a semi annual basis. The notes are listed on the London Stock Exchange.	**145,127**	139,832
Fixed rate notes amounting to US$ 500 million having a term of 5 years maturing on 5 February 2019 and carrying a coupon interest rate of 4.8% payable on a semi annual basis. The notes are listed on the London Stock Exchange.	**146,143**	-
Issued by subsidiaries through SPEs:		
Floating rate subordinated debt note amounting to US$ 100 million having a term of 10 years maturing on 12 October 2016 and carrying a coupon interest rate of 3 months LIBOR plus 190 bps per annum payable on a quarterly basis. The notes are listed on the Singapore Stock Exchange.	**29,280**	28,200
Fixed rate notes amounting to US$ 400 million having a term of 10 years maturing on 29 September 2020 and carrying a coupon interest rate of 7.875% payable on a semi annual basis. The notes are listed on the London Stock Exchange.	**114,161**	109,692
	580,330	417,593
Less: inter-group eliminations	**(17,749)**	(17,111)
	562,581	400,482

16 OTHER LIABILITIES

	2014 *KD 000's*	*2013* *KD 000's*
Accounts payable	**134,322**	138,882
Accrued interest and expenses	**108,481**	105,733
Taxation payable	**16,434**	15,772
Other	**92,515**	87,101
	351,752	347,488

17 SHARE CAPITAL, SHARE PREMIUM, TREASURY SHARES, RESERVES, APPROPRIATIONS AND PERPETUAL CAPITAL SECURITIES

a) Share capital

At the extra ordinary general meeting of the shareholders held on 31 March 2014, the shareholders approved to amend the Parent Company's Memorandum of Incorporation and Articles of Association, to increase the authorised share capital of the Parent Company to 2,000,000 thousand shares of 100 fils each, after obtaining regulatory approvals. As at the reporting date, the regulatory approvals were obtained (amendments have been made in the commercial register on 11 September 2014).

Issued and paid-up capital consists of 1,473,572,703 shares (2013: 1,403,402,573 shares) of 100 fils per share (2013: 100 fils per share). This is comprised of 1,049,620,700 shares (2013: 1,049,620,700 shares) which are fully paid up in cash, whereas 423,952,003 shares (2013: 353,781,873 shares) were issued as bonus shares.

b) Share premium

The share premium is not available for distribution.

c) Treasury shares

	2014	*2013*
Number of treasury shares	**115,815,689**	27,234,397
Percentage of capital	**7.86%**	1.94%
Market value – KD 000's	**81,071**	16,885

Reserves equivalent to the cost of the treasury shares held are not available for distribution.

d) Statutory reserve

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration has been transferred to the statutory reserve. The Company may resolve to discontinue such annual transfers, as the reserves have exceeded 50% of share capital by a resolution of the shareholders' Annual General Assembly. The statutory reserve is not available for distribution except in certain circumstances stipulated by Law.

e) Voluntary reserve

In accordance with the Parent Company's Articles of Association, 10% of profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration has been transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' Annual General Assembly upon a recommendation by the Board of Directors. There is no restriction on distribution of this reserve.

f) Dividend

The Board of Directors has recommended the distribution of cash dividend of 25 fils per share (2013: 20 fils per share) on outstanding shares (excluding treasury shares) and a stock dividend (bonus shares) of Nil (2013: 5%) in respect of the year ended 31 December 2014. Subject to being approved by the shareholders' Annual General Assembly, the dividend shall be payable to the shareholders registered in the Parent Company's records as of the date of the Shareholders' Annual General Assembly meeting. Dividends for 2013 were approved at the Annual General Assembly of the shareholders held on 31 March 2014.

17 SHARE CAPITAL, SHARE PREMIUM, TREASURY SHARES, RESERVES, APPROPRIATIONS AND PERPETUAL CAPITAL SECURITIES (continued)

g) Perpetual capital securities issued by a subsidiary of the Group

On 30 September 2014, one of the subsidiaries of the Group - Burgan ("subsidiary of the Group") issued perpetual capital securities through Burgan Tier 1 Financing Limited (a newly incorporated special purpose company with limited liability in the Dubai International Financial Centre), amounting to USD 500,000 thousand.

The perpetual capital securities are unconditionally and irrevocably guaranteed by the subsidiary of the Group and constitute direct, unconditional, subordinated and unsecured obligations and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The perpetual capital securities do not have a maturity date. They are redeemable by the subsidiary of the Group at its discretion after 30 September 2019 (the "first call date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The perpetual capital securities bear interest on their nominal amount from the issue date to the first call date at a fixed annual rate of 7.25%. Thereafter the interest rate will be reset at five year intervals. Interest will be payable semi-annually in arrears and treated as a deduction from equity and non controlling interest.

The subsidiary of the Group at its sole discretion may elect not to distribute interest as stipulated and this is not considered an event of default.

18 EMPLOYEE STOCK OPTION PLAN RESERVE

During the year, the Parent Company granted equity-settled stock options to eligible employees. These shares vest over a period of three years from the grant date. The vesting of the stock options is dependent on eligible employees remaining in service till the end of the vesting period. The fair value of stock options granted is amortised over the vesting period.

The following table illustrates the number, weighted average exercise prices and the movement in the stock options during the year:

	2014		*2013*	
	Number of shares	***Weighted average exercise price KD***	*Number of shares*	*Weighted average exercise price KD*
Outstanding at 1 January	**23,483,860**	**0.280**	22,931,134	0.298
Granted during the year	**4,232,164**	**0.527**	5,661,717	0.390
Stock dividend granted during the year	**1,363,812**	**-**	1,427,704	-
Exercised during the year	**(5,457,225)**	**0.431**	(6,348,538)	0.373
Expired / forfeited during the year	**(837,079)**	**0.316**	(188,157)	0.490
Outstanding at 31 December	**22,785,532**	**0.272**	23,483,860	0.280
Stock options exercisable as at 31 December	**11,438,158**		10,078,840	

The Parent Company recognised an expense of KD 847 thousand (2013: KD 829 thousand) relating to equity-settled share-based payment transactions during the year.

The weighted average remaining contractual life of the stock options outstanding as at 31 December 2014 is 1.65 years (2013: 1.68 years). The weighted average fair value of stock options granted during the year was KD 330 thousand (2013: KD 178 thousand). The range of exercise prices for options outstanding at the end of the year was KD 0.305 to KD 0.527 (2013: KD 0.365 to KD 0.390).

18 EMPLOYEE STOCK OPTION PLAN RESERVE (continued)

The following table lists the inputs to the Black-Scholes option pricing model for the stock options granted during 2014 and 2013:

	2014	*2013*
Dividend yield (%)	**10**	10
Expected volatility (%)	**25.9**	27.4
Risk free interest rate (%)	**2.5**	2.5
Expected life of option (years)	**3**	3
Stock price on the date of grant (fils)	**620**	390
Weighted average exercise price of stock options granted (fils)	**527**	390

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the stock options is indicative of future trends, which may also not necessarily be the actual outcome.

19 INVESTMENT INCOME

	2014 ***KD 000's***	*2013* *KD 000's*
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Gain on sale	**4,181**	2,357
Unrealised gain	**5,005**	360
	9,186	2,717
Financial assets designated at fair value through profit or loss		
Gain on sale	**370**	6,620
Unrealised gain	**9,962**	134
	10,332	6,754
Other investment income		
Gain on bargain purchase (note 25)	**-**	2,774
Gain on re-measurement of equity interest retained (note 22)	**-**	9,226
Unrealised gain on investment properties (note 10)	**2,295**	5,583
Gain on sale of financial assets available for sale	**10,007**	5,153
Dividend income	**5,996**	4,715
Gain on sale of financial assets held to maturity	**243**	-
Gain on sale of investment in associates	**2,722**	-
Gain on sale of investment properties	**3,005**	3,557
	43,786	40,479

20 FEE AND COMMISSION INCOME

	2014 ***KD 000's***	*2013* *KD 000's*
Fee from fiduciary activities	**3,446**	3,985
Credit related fee and commission	**49,648**	39,345
Advisory fee	**2,117**	4,319
Other fee	**4,620**	6,019
	59,831	53,668

21 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include staff cost for the year ended 31 December 2014 amounting to KD 86,160 thousand (2013: KD 80,014 thousand).

22 DISCONTINUED OPERATION IN 2013

On 31 October 2013, the Group sold 29% equity interest in Saudi Arabia Dairy and Foodstuff Company ("SADAFCO") to a related party (an associate of the Group) for a cash consideration of KD 65,740 thousand (Saudi Riyals 871,813 thousand). As a result of this sale, the Group's equity interest in SADAFCO decreased from 40.13% to 11.13% and consequently the Group no longer exercises control over SADAFCO.

	KD 000's
Total sale consideration	65,740
Carrying value of equity interest disposed	28,751
Gain on disposal	36,989
Less: adjustment for down-stream transaction *	(7,109)
Net gain on disposal of SADAFCO	29,880

* In accordance with IAS 28: Investments in Associates and Joint Ventures, gain on disposal of SADAFCO to the extent of the Group's ownership interest in the associate has been eliminated since the sale of SADAFCO was made to an associate.

The equity interest retained (11.13%) in SADAFCO is classified as "financial assets available for sale" and accounted for in accordance with IAS 39 ("Financial Instruments: Recognition and Measurement) (note 6). Further, the Group recognised a gain of KD 9,226 thousand as a result of the fair valuation of equity interest retained in SADAFCO which is included in investment income (note 19).

In accordance with IFRS 5, the disposal of SADAFCO is classified as a discontinued operation. The results of SADAFCO until the date of disposal are presented below:

	2013 *KD 000's*
Income	98,392
Expenses	(88,257)
Net income for the year from a discontinued operation	10,135
Gain on disposal of the discontinued operation (see above)	29,880
Profit from discontinued operations	40,015
Attributable to:	
Equity holders of the Parent Company	27,662
Non controlling interest	12,353
	40,015

	Fils
Earnings per share from discontinued operation:	
Basic – attributable to equity holders of the Parent Company	19.28
Diluted – attributable to equity holders of the Parent Company	19.23

As SADAFCO was sold prior to 31 December 2013, related assets and liabilities are not included in the consolidated statement of financial position as at 31 December 2013.

Net cash flow from disposal of the discontinued operation:	*KD 000's*
Consideration received	65,740
Less: net cash disposed off with the discontinued operation	(7,379)
	58,361

22 DISCONTINUED OPERATION IN 2013 (continued)

The net cash flows incurred by the discontinued operation are as follows:

	2013 *KD 000's*
Operating	12,328
Investing	(904)
Financing	(10,703)
Net cash inflow	721

23 TAXATION

	2014 ***KD 000's***	*2013* *KD 000's*
Taxation arising from overseas subsidiaries	**16,434**	15,772

Components of taxation arising from overseas subsidiaries are as follows:

	2014 ***KD 000's***	*2013* *KD 000's*
Current tax	**16,502**	17,226
Deferred tax	**(68)**	(1,454)
	16,434	15,772

The tax rate applicable to the taxable subsidiary companies is in the range of 15% to 30% (2013: 15% to 30% whereas the effective income tax rate for the year ended 31 December 2014 is in the range of 15% to 30% (2013: 15% to 30%). For the purpose of determining the taxable results for the year, the accounting profit of the overseas subsidiary companies were adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. The adjustments are based on the current understanding of the existing laws, regulations and practices of each overseas subsidiary companies jurisdiction.

Deferred tax assets / liabilities are included as part of other assets / liabilities in the consolidated financial statements.

24 EARNINGS PER SHARE

Basic:
Basic earnings per share is computed by dividing the profit for the period attributable to equity holders of the Parent Company by the weighted average number of shares outstanding during the year, as follows:

	2014	*2013*
	KD 000's	*KD 000's*
Basic earnings:		
Profit for the period attributable to the equity holders of the Parent Company from continuing operations	**46,086**	12,393
Profit for the period attributable to the equity holders of the Parent Company from a discontinued operation (note 22)	**-**	27,662
Profit for the period attributable to the equity holders of the Parent Company	**46,086**	40,055
	Shares	*Shares*
Number of shares outstanding:		
Weighted average number of paid up shares	**1,473,572,703**	1,473,572,703
Weighted average number of treasury shares	**(76,943,023)**	(39,069,197)
Weighted average number of outstanding shares	**1,396,629,680**	1,434,503,506
	Fils	*Fils*
Basic earnings per share	**33.00**	27.92
Basic earnings per share from continuing operations	**33.00**	8.64

24 EARNINGS PER SHARE (continued)

Diluted:
Diluted earnings per share is calculated by dividing the profit for the year attributable to the equity holders of the Parent Company adjusted for the effect of decrease in profit due to exercise of potential ordinary shares of subsidiaries by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all employees stock options. The Parent Company has outstanding share options, issued under the Employee Stock Options Plan (ESOP), which have a dilutive effect on earnings.

	2014	*2013*
	KD 000's	*KD 000's*
Diluted earnings:		
Profit for the period attributable to the equity holders of the Parent Company from continuing operations	**46,086**	12,393
Profit for the period attributable to the equity holders of the Parent Company from a discontinued operation	**-**	27,662
Profit for the year attributable to equity holders of the Parent Company	**46,086**	40,055
Decrease in profit due to exercise of potential ordinary shares of subsidiaries	**(76)**	(71)
Earnings for the purpose of diluted earnings per share	**46,010**	39,984
	Shares	*Shares*
Number of shares outstanding:		
Weighted average number of outstanding shares	**1,396,629,680**	1,434,503,506
Effect of share options on issue	**7,151,448**	4,307,574
	1,403,781,128	1,438,811,080
	Fils	*Fils*
Diluted earnings per share	**32.78**	27.79
Diluted earnings per share from continuing operations	**32.78**	8.56

Basic and diluted earnings per share for the comparative year presented has been restated to reflect the effect of bonus shares issued on 31 March 2014 (note 17).

25 BUSINESS COMBINATION IN 2013

On 20 June 2013, the Group acquired 37% equity interest in FIM Bank P.L.C. (the "FIM Bank") for KD 10,578 thousand (US$ 37,064 thousand) and classified FIM Bank as an investment in associate. As a result of this acquisition, the Group recognised a bargain purchase gain of KD 2,774 thousand (note 19).

Subsequently on 29 July 2013, the Group acquired additional equity interest in FIM Bank by converting debt of KD 8,532 thousand (US$ 30,000 thousand) into equity. As a result the Group's ownership interest in FIM Bank increased by 12.8% to reach 49.8%. While the Group owns less than 50% of the voting rights of FIM Bank, the Group determined that it had de facto control over FIM Bank. The factors considered by the Group included the voting shares, the relative size and dispersion of holdings by other shareholders, attendance and voting patterns at board meetings and the sharing of key management positions between the Group and FIM Bank. Following the acquisition of additional equity interest, FIM Bank became a subsidiary of the Group and has been consolidated from the date of exercise of control.

FIM Bank is a public limited company registered under the laws of Malta, and listed on the Malta Stock Exchange. FIM Bank is licensed as a credit institution under the Banking Act, 1994.

The acquisition was accounted for in accordance with IFRS 3: Business combinations ("IFRS 3"). No gain or loss was recognised upon re-measurement of previously held equity interest in FIM Bank as the provisional fair values approximated carrying value.

The consideration paid and the values of assets acquired and liabilities assumed are summarized as follows:

	KD 000's
Assets	
Cash in hand and at banks	84,115
Loans and advances	201,549
Financial assets at fair value through profit or loss	14,557
Financial assets available for sale	26
Other assets	7,522
Investment in associates	6,674
Property, plant and equipment	10,306
Intangible assets (note 11)	390
	325,139
Liabilities	
Due to banks and other financial institutions	147,992
Deposits from customers	120,839
Loans payable	8,532
Other liabilities	5,770
	283,133
Net assets acquired	**42,006**
Consideration paid	8,532
Non controlling interest in acquire	21,082
Fair value of Group's previously held equity interest	12,392
	42,006
Goodwill	-

25 BUSINESS COMBINATION IN 2013 (continued)

	KD 000's
Consideration paid	(8,532)
Cash and cash equivalents in subsidiary acquired	84,115
Cash inflow on acquisition	75,583

As a result of FIM Bank becoming subsidiary, the consolidated income statement of the Group included the following income and expenses for the year ended 31 December 2013 from the date of exercise of control:

	KD 000's
Income:	
Interest income	4,345
Investment income	525
Fee and commission income	2,855
Share of results of associates	45
	7,770
Expenses:	
Foreign exchange loss	166
Interest expense	2,326
General and administrative expenses	3,246
Provision for credit losses	1,468
	7,206
Profit for the period	564

Acquisition-related costs were charged to consolidated income statement of the Group.

Had the business combination taken place at the beginning of the year, revenue of the Group would have been higher by KD 6,770 thousand and profit attributable to equity holders of the Parent Company would have been lower by KD 809 thousand for the year ended 31 December 2013.

Current year update:

On 27 January 2014, the Group purchased additional 54,411,528 shares of FIMBank, for a cash consideration of KD 14.6 million, by way of a voluntary bid for shares of FIMBank. As a result, the Group's interest in FIMBank has increased from 50% as of 31 December 2013 to 81%. Change in ownership interests (without a change of control) are accounted for as an equity transaction and recorded under 'other reserve'.

Furthermore, during the year, the Group finalized the Purchase Price Allocation ("PPA") exercise of FIM Bank and determined that the fair value of assets and liabilities acquired do not materially differ from their provisionally determined fair values as at the acquisition date.

26 RELATED PARTY TRANSACTIONS

These represent transactions with related parties, i.e. major shareholders, associates, 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. Related party balances and transactions consist of the following:

2014	*Major shareholder KD 000's*	*Associates and joint ventures KD 000's*	*Others KD 000's*	***Total KD 000's***
Consolidated statement of financial position:				
Loans and advances *	-	223,803	290,891	**514,694**
Other assets	1,712	1,588	1,086	**4,386**
Due to banks and other financial institutions *	-	21,518	5,865	**27,383**
Deposit from customers *	23,992	13,495	13,464	**50,951**
Medium term notes	-	5,949	-	**5,949**
Other liabilities	39	265	61	**365**
Transactions:				
Interest income	4,679	7,432	3,120	**15,231**
Gain on sale of financial assets available for sale **	-	1,577	-	**1,577**
Dividend income	-	11	548	**559**
Fee and commission income	23	727	1,334	**2,084**
Interest expense	166	131	276	**573**
Commitments and guarantees:				
Guarantees	25	8,706	4,255	**12,986**

* Related party balances pertain to operations of a banking subsidiary.
** During the current year, the Group disposed its 11.13% equity interest in SADAFCO (note 22) to a related party for a cash consideration of KD 27,177 thousand on which it has realised a gain of KD 1,577 thousand.

During the current year, the following reorganisations took place within the Group:

- One of the subsidiaries of the Group - Overland sold 29% equity interest in ATC for KD 39,200 thousand to UIC, also a subsidiary of the Group. No goodwill nor any gain or loss arose on this inter-group transaction.

- The Parent Company sold 98% equity interest in Kuwait United Consultancy Company K.S.C. (Closed) for KD 23,500 thousand to Overland, a subsidiary of the Group. No goodwill nor any gain or loss arose on this inter-group transaction.

26 RELATED PARTY TRANSACTIONS (continued)

2013	*Major shareholder KD 000's*	*Associates and joint ventures KD 000's*	*Others KD 000's*	*Total KD 000's*
Consolidated statement of financial position:				
Loans and advances *	13,805	93,370	155,822	262,997
Other assets	-	1,290	6,566	7,856
Due to banks and other financial institutions *	-	26,118	7,155	33,273
Deposit from customers *	8,814	8,777	20,023	37,614
Medium term notes	-	5,730	-	5,730
Other liabilities	2,952	5,316	74	8,342
Transactions:				
Interest income	3,368	2,637	1,455	7,460
Dividend income	-	-	457	457
Fee and commission income	41	852	2,700	3,593
Interest expense	281	543	384	1,208
Commitments and guarantees:				
Guarantees	20	3,274	2,450	5,744

* Related party balances pertain to operations of a banking subsidiary.

On 31 October 2013, the Group entered into an agreement to sell 29% equity interest in SADAFCO to a related party (an associate of the Group). Refer note 22 for details.

Key management compensation
Remuneration paid or accrued in relation to key management (deemed for this purpose to comprise Directors in relation to their committee service, the Chief Executive Officer and other Senior Officers) was as follows:

	2014 KD 000's	*2013 KD 000's*
Short-term employee benefits	**17,829**	12,473
Termination benefits	**1,589**	1,195
Share based payment	**701**	732
Total compensation paid to 'key management'	**20,119**	14,400

The Board of Directors has proposed Directors' fees in the amount of KD 220 thousand which is in excess of what is allowed as per article 229 of the Commercial Companies Law. These fees are subject to the approval of the shareholders' general assembly.

27 HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS

During the year, the Group designated its investments in foreign operations (i.e. investment in PMGL, UGB, Taka'ud Savings & Pensions Company B.S.C. and Pulsar Knowledge Centre) and EMTN as a hedge of a net investment in foreign operations. EMTN is being used to hedge the Group's exposure to the US$ foreign exchange risk on these investment. Gains or losses on the retranslation of this borrowing are transferred to consolidated statement of other comprehensive income to offset any gains or losses on translation of the net investments in the foreign operations. There is no ineffectiveness during the year ended 31 December 2014.

28 COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments and contingent liabilities
Credit related commitments and contingent liabilities include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of subsidiaries customers.

Letters of credit, guarantees (including standby letters of credit) commit the subsidiaries to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry the same credit risk as loans.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments and contingent liabilities generally have fixed expiration dates, or other termination clauses. Since commitments and contingent liabilities may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Investment related commitments
Investment related commitments represent commitments for capital calls of fund structures. These commitments can be called during the investment period of the fund which normally is 1 to 5 years.

The Group has the following commitments and contingent liabilities:

	2014	*2013*
	KD 000's	*KD 000's*
Credit related commitments and contingent liabilities		
Letters of credit	**398,290**	463,269
Guarantees	**809,186**	806,389
	1,207,476	1,269,658
Undrawn lines of credit	**735,206**	305,191
Investment related commitments	**113,175**	104,816
	2,055,857	1,679,665

Operating lease – Group as a lessor
The Group has entered into commercial leases for certain investment properties in the normal course of business. Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2014	*2013*
	KD 000's	*KD 000's*
Within one year	**24,887**	22,167
After one year but not more than three years	**45,955**	34,994
	70,842	57,161

Operating lease commitments – Group as a lessee
The Group has entered into commercial leases for investment properties in the normal course of business. Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2014	*2013*
	KD 000's	*KD 000's*
Within one year	**218**	228
After one year but not more than three years	**490**	1,571
	708	1,799

29 DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. Derivatives are financial instruments that derive their value by referring interest rate, foreign exchange rate or other indices. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing asset and liabilities or to provide interest rate risk management solutions to customers. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts analysed by the terms of maturity. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

				Notional amounts by term to maturity	
2014	***Positive fair value KD 000's***	***Negative fair value KD 000's***	***Notional amount KD 000's***	***Within 1 year KD 000's***	***1 – 5 years KD 000's***
Derivatives held for trading: (including non-qualifying hedges)					
Forward foreign exchange contracts	**10,252**	**(10,559)**	**869,813**	**821,140**	**48,673**
Interest rate swaps	**4,362**	**(670)**	**230,291**	**33,079**	**197,212**
Options	**2,945**	**(2,907)**	**140,670**	**103,795**	**36,875**
Derivatives held for hedging:					
Fair value hedges:					
Forward foreign exchange contracts	**370**	**(37)**	**447**	**447**	**-**
Cross currency swaps	**657**	**-**	**40,711**	**40,711**	**-**
Interest rate swaps	**527**	**-**	**102,480**	**-**	**102,480**
Cash flow hedges:					
Interest rate swaps	**-**	**(26)**	**29,280**	**14,640**	**14,640**

				Notional amounts by term to maturity	
2013	*Positive fair value KD 000's*	*Negative fair value KD 000's*	*Notional amount KD 000's*	*Within 1 year KD 000's*	*1 – 5 years KD 000's*
Derivatives held for trading: (including non-qualifying hedges)					
Forward foreign exchange contracts	9,575	(4,820)	595,837	586,424	9,413
Interest rate swaps	2,032	(266)	108,439	14,673	93,766
Options	14,172	(14,118)	431,846	423,858	7,988
Derivatives held for hedging:					
Fair value hedges:					
Forward foreign exchange contracts	759	(149)	161,948	161,948	-
Cross currency swaps	722	-	210,510	170,623	39,887
Cash flow hedges:					
Interest rate swaps	-	(63)	49,350	21,150	28,200

29 DERIVATIVES (continued)

The Group has positions in the following types of derivatives:

Forward foreign exchange contracts
Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

Swaps
Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Options
Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specified amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Group purchases and sells options through regulated exchanges and in the over–the–counter markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed–upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Group provide the purchaser the opportunity to purchase from or sell to the Group the underlying asset at an agreed–upon value either on or before the expiration of the option.

Derivatives held for trading
Derivatives held for trading include the Group's derivative positions held with the expectation of profiting from favourable movements in prices, rates or indices. Derivatives which do not meet hedging requirements are also included under derivatives held for trading.

Fair value hedges
Fair value hedges are used by the Group to protect against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates. The Group uses forward foreign exchange contracts to hedge against specifically identified currency risks.

Cash flow hedges
The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. A schedule indicating as at 31 December 2014 the periods when the hedged cash flows are expected to occur and when they are expected to affect the consolidated income statement are as follows:

2014	***Within 1 year KD 000's***	***1-5 years KD 000's***
Cash outflows (liabilities)	**27**	**119**
Consolidated income statement	**(23)**	**(3)**

2013	*Within 1 year KD 000's*	*1-5 years KD 000's*
Cash outflows (liabilities)	28	246
Consolidated income statement	(27)	(36)

29 DERIVATIVES (continued)

The table below shows the contractual expiry by maturity of the Group's derivatives positions:

Derivatives	*Up to 3 months KD 000's*	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
2014				
Foreign exchange derivatives	**285,070**	**536,517**	**48,673**	**870,260**
Interest rate swaps	**8,270**	**39,449**	**314,332**	**362,051**
Options	-	**103,795**	**36,875**	**140,670**
Cross currency swaps	**40,711**	**-**	**-**	**40,711**
	334,051	**679,761**	**399,880**	**1,413,692**
2013				
Foreign exchange derivatives	297,287	451,085	9,413	757,785
Interest rate swaps	-	35,823	121,966	157,789
Options	-	423,858	7,988	431,846
Cross currency swaps	-	170,623	39,887	210,510
	297,287	1,081,389	179,254	1,557,930

30 SEGMENT INFORMATION

For management purposes, the Group is organized into six main business segments based on internal reporting provided to the chief operating decision maker:

Commercial banking - represents Group's commercial banking activities which includes retail banking, corporate banking, and private banking and treasury products. These entities are regulated by the Central Bank of the respective countries.

Asset management and investment banking - represents Group's asset management and investment banking activities which includes asset management, corporate finance (advisory and capital markets services), investment advisory and research, and investments of the Group in sectors such as education and healthcare.

Insurance - represents Group's insurance activities and other related services.

Media - represents Group's activities in providing digital satellite network, internet and other related services.

Industrial - represents Group's activities in industrial project development, food, utilities, services and other related sectors.

Hospitality and real estate - represents Group's activities in the hospitality and real estate sector.

Others - represents other activities undertaken by the Group which includes management advisory and consultancy.

Transfer prices between operating segments are at a price approved by the management of the Group.

30 SEGMENT INFORMATION (continued)

Management monitors the results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements. However, taxation is managed on a Group basis and is not allocated to operating segments.

	Commercial banking KD 000's	*Asset management and investment banking KD 000's*	*Insurance* KD 000's*	*Media** KD 000's*	*Industrial KD 000's*	*Hospitality and real estate KD 000's*	*Others KD 000's*	*Inter-segmental eliminations KD 000's*	***Total KD 000's***
As at 31 December 2014									
Assets and liabilities:									
Segment assets	8,164,952	741,436	73,719	162,698	223,887	674,951	59,986	(773,478)	**9,328,151**
Segment liabilities	7,101,817	1,021,658	-	-	68,482	344,103	34,214	(516,600)	**8,053,674**
For the year ended 31 December 2014									
Segment revenues	414,888	53,608	5,485	10,930	46,757	65,761	27,035	(26,546)	**597,918**
Profit (loss) for the year	78,007	(20,659)	5,485	10,930	9,820	7,609	1,849	(5,623)	**87,418**
Other segmental information:									
Investment in associates	11,257	80,319	73,719	-	184,100	43,906	-	-	**393,301**
Goodwill (note 11)	137,414	21,894	-	-	-	-	14,669	-	**173,977**
Other intangibles (note 11)	159,459	540	-	-	-	-	-	-	**159,999**
Provision for credit losses	57,134	548	-	-	-	-	-	-	**57,682**
Share of results of associates	(1,083)	17,832	5,485	-	10,914	1,390	-	-	**34,538**
Impairment of investments	2,563	1,372	-	-	-	2	-	-	**3,937**
Depreciation and amortization	18,716	1,582	-	-	212	603	1,039	-	**22,152**

* represents interest in GIG, an associate of the Group (note 8)
** represents interest in PMGL, a joint venture of the Group (note 9)

30 SEGMENT INFORMATION (continued)

	Commercial banking KD 000's	*Asset management and investment banking KD 000's*	*Insurance* KD 000's*	*Media** KD 000's*	*Industrial KD 000's*	*Hospitality and real estate KD 000's*	*Others KD 000's*	*Inter-segmental eliminations KD 000's*	***Total KD 000's***
As at 31 December 2013									
Assets and liabilities:									
Segment assets	7,549,388	557,628	70,350	144,133	201,072	635,644	98,216	(618,882)	8,637,549
Segment liabilities	6,784,046	742,003	-	-	55,538	330,743	65,896	(454,782)	7,523,444
For the year ended 31 December 2013									
Segment revenues	365,975	24,972	4,586	6,310	177,524	55,485	26,750	(19,235)	642,367
Profit (loss) for the year	64,695	(43,040)	4,586	6,310	52,229	10,692	1,961	(4,253)	93,180
Other segmental information:									
Investment in associates	11,241	110,521	70,350	-	135,308	49,531	-	-	376,951
Goodwill (note 11)	129,580	20,762	-	-	-	-	14,669	-	165,011
Other intangibles (note 11)	168,899	742	-	-	-	-	-	-	169,641
Provision for credit losses	59,186	(536)	-	-	-	-	-	-	58,650
Share of results of associates	(22)	2,682	4,586	-	5,042	1,441	-	-	13,729
Impairment of investments	1,923	1,935	-	-	-	306	-	-	4,164
Depreciation and amortization from continuing operations	16,790	1,589	-	-	12	456	1,127	-	19,974

Inter segmental elimination represent the elimination of balances and transactions arising in the normal course of business between the different segments of the Group.

* represents interest in GIG, an associate of the Group (note 8)
** represents interest in PMGL, a joint venture of the Group (note 9)

30 SEGMENT INFORMATION (continued)

Geographic information

2014	***Income*** ***KD 000's***	***Non-current assets*** ***KD 000's***
Kuwait	**276,877**	**2,738,949**
Rest of GCC	**25,965**	**133,769**
Rest of Middle East and North Africa	**186,483**	**1,272,798**
Europe	**101,632**	**296,302**
North America	**6,961**	**9,004**
	597,918	**4,450,822**

2013	*Income* *KD 000's*	*Non-current assets* *KD 000's*
Kuwait	235,252	2,317,149
Rest of GCC	148,657	262,372
Rest of Middle East and North Africa	177,315	928,702
Europe	79,600	273,873
North America	1,543	10,472
	642,367	3,792,568

For breakup of non-current assets, refer to note 31.3.

The geographic segmentation of the income information above is based on the region where the services are provided.

Adjustments to reconcile segment revenues with income as per the consolidated income statement:	*2013* *KD 000's*
Segment revenue	642,367
Less: Income from discontinued operation (note 22)	(98,392)
Less: Gain on disposal of the discontinued operation (note 22)	(29,880)
	514,095

The discontinued operation represents the industrial segment.

31 RISK MANAGEMENT

31.1 INTRODUCTION

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability.

Each subsidiary of the Group is responsible for managing its own risks and has its own Board Committees, including Audit and Executive Committees in addition to other management Committees such as Credit / Investment Committee and (in the case of major subsidiaries) Asset Liability Committee (ALCO), or equivalent, with responsibilities generally analogous to the Group's committees.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process. The Board of Directors is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

31 RISK MANAGEMENT (continued)

31.1 INTRODUCTION (continued)

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected geographic and industrial sectors. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The operations of certain Group subsidiaries are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy, general provision on loans and advances) to minimise the risk of default and insolvency on the part of the banking companies to meet unforeseen liabilities as these arise. Adequate adjustments to provisions for credit losses have been made at the Group level to comply with IFRS having a net effect of KD 70,438 thousand (2013: KD 61,227 thousand) on equity attributable to equity holders of the Parent Company.

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currency transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group.

The Group classifies the risks faced as part of its monitoring and controlling activities into certain categories of risks and accordingly specific responsibilities have been given to various officers for the identification, measurement, control and reporting of these identified categories of risks. The categories of risks are:

A. Risks arising from financial instruments:
   i. Credit risk which includes default risk of clients and counterparties
   ii. Liquidity risk
   iii. Market risk which includes interest rate, foreign exchange and equity price risks
   iv. Prepayment risk

B. Other risk
   i. Operational risk which includes risks due to operational failures

Derivative transactions result, to varying degrees, in credit as well as market risks.

Market risk arises as interest rates, foreign exchange rates and equity prices fluctuate affecting the value of a contract. For risk management purposes and to control these activities, the Group has established appropriate procedures and limits approved by the Board of Directors.

31.2 CREDIT RISK

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industrial segments. Such risks are monitored on a regular basis and are subject to regular review. Limits on the level of credit risk by product, industry sector and by country are approved by the Board.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit related commitments risk
The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

31 RISK MANAGEMENT (continued)

31.2 CREDIT RISK (continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position. In the case of credit derivatives, the Group is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative.

31.2.1 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 any collateral and other credit enhancements i.e. credit risk mitigation.

	2014	*2013*
	KD 000's	*KD 000's*
Cash at banks	**1,344,909**	1,254,529
Treasury bills and bonds	**629,819**	583,647
Loans and advances	**4,764,622**	4,334,057
Financial assets at fair value through profit or loss	**13,277**	17,134
Financial assets available for sale	**149,477**	195,237
Financial assets held to maturity	**47,966**	17,796
Other assets including positive value of derivatives	**174,633**	197,821
Total	**7,124,703**	6,600,221
Credit related commitments	**1,942,682**	1,574,849
Total	**9,067,385**	8,175,070

The exposures set above are based on net carrying amounts as reported in the consolidated statement of financial position.

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

31.2.2 Collateral and other credit enhancements

The amount, type and valuation of collateral is based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, quoted shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units.

Management monitors the market value of collaterals, requests additional collaterals in accordance with the underlying agreement, and monitors the market value of collaterals obtained on a regular basis.

The Group can file a court case against a default borrower and can sell the collateral if the case is in favour of the Group. 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 Group also makes use of master netting agreements with counterparties.

31.2.3 Credit quality of financial assets neither past due nor impaired

The credit quality of financial assets are summarised by reference to public ratings given to the clients/counterparties by recognised and approved external credit rating agencies.

	2014	*2013*
	KD 000's	*KD 000's*
Risk rating		
Investment grade	**1,481,909**	1,810,732
Non-investment grade	**122,925**	117,896
Unrated	**5,204,809**	4,410,196
Total	**6,809,643**	6,338,824

31 RISK MANAGEMENT (continued)

31.2 CREDIT RISK (continued)

31.2.4 Financial assets past due but not impaired

For credit risk related exposures, a past due exposure is considered to be one where the client or counterparty has failed to meet his contractual obligation to the Group towards payment of the interest or the principal or a part thereof on the date on which such payment is due.

	Carrying value KD 000's	*Fair value of collateral held KD 000's*
2014		
Past due 1 to 45 days	**158,789**	**101,752**
Past due 45 to 90 days	**34,286**	**2,181**
Total	**193,075**	**103,933**
2013		
Past due 1 to 45 days	133,644	116,392
Past due 45 to 90 days	14,138	5
Total	147,782	116,397

31.2.5 Impaired financial assets

The Group considers an asset to be impaired if the carrying value exceeds the realisable value of the asset.

	2014			*2013*		
	Gross exposure KD 000's	***Provision KD 000's***	***Fair value of collateral held KD 000's***	*Gross exposure KD 000's*	*Provision KD 000's*	*Fair value of collateral held KD 000's*
Corporate	**171,452**	**66,699**	**94,549**	164,158	59,080	91,124
Banks and financial institutions	**10,597**	**9,888**	**1,408**	3,704	6,737	-
Retail	**29,796**	**13,273**	**9,346**	19,408	7,838	6,599
	211,845	**89,860**	**105,303**	187,270	73,655	97,723

31 RISK MANAGEMENT (continued)

31.2 CREDIT RISK (continued)

31.2.6 Credit risk concentration

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 10 largest loans outstanding as a percentage of gross loans as at 31 December 2014 are 18% (2013: 18%).

The Group's financial assets and commitments, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

Region	*Assets 2014 KD 000's*	*Credit related commitments 2014 KD 000's*	*Assets 2013 KD 000's*	*Credit related commitments 2013 KD 000's*
MENA	**6,294,849**	**1,841,786**	4,889,209	1,163,712
North America	**114,681**	**20,032**	66,782	14,659
Europe	**381,370**	**28,871**	1,506,582	359,147
Asia	**49,346**	**5,662**	7,573	-
Others	**284,457**	**46,331**	130,075	37,331
Total	**7,124,703**	**1,942,682**	6,600,221	1,574,849

The Group's financial assets and credit related commitments, before taking into account any collateral held or credit enhancements can be analysed by the following industry sector:

	2014 KD 000's	*2013 KD 000's*
Sovereign	**1,298,195**	1,208,430
Banking	**1,217,309**	1,522,157
Investment	**201,769**	362,326
Trade and commerce	**1,207,043**	1,032,803
Real estate	**1,227,664**	1,098,135
Personal	**1,213,690**	1,018,108
Manufacturing	**841,613**	729,813
Construction	**732,334**	591,540
Others	**1,127,768**	611,758
	9,067,385	8,175,070

31 RISK MANAGEMENT (continued)

31.3 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The table below shows an analysis of financial liabilities based on the remaining undiscounted contractual maturities. Repayments which are subject to notice are treated as if notice were to be given immediately.

	1 to 3 months KD 000's	***3 to 12 months KD 000's***	***Over 1 year KD 000's***	***Total KD 000's***
2014				
Financial liabilities				
Due to banks and other financial institutions	859,315	774,422	295,936	**1,929,673**
Deposits from customers	4,010,868	890,403	65,117	**4,966,388**
Loans payable	75,112	101,771	173,696	**350,579**
Bonds	2,867	8,610	274,883	**286,360**
Medium term notes	10,377	23,371	771,584	**805,332**
Other liabilities *	170,542	77,633	103,577	**351,752**
	5,129,081	**1,876,210**	**1,684,793**	**8,690,084**

	1 to 3 months KD 000's	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
2013				
Financial liabilities				
Due to banks and other financial institutions	820,842	1,018,349	28,124	1,867,315
Deposits from customers	3,535,020	1,210,921	56,985	4,802,926
Loans payable	61,458	154,611	375,191	591,260
Bonds	2,613	7,523	307,241	317,377
Medium term notes	6,610	21,506	604,119	632,235
Other liabilities *	113,719	64,579	169,190	347,488
	4,540,262	2,477,489	1,540,850	8,558,601

* Other liabilities include negative fair value of derivative financial liabilities.

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	1 to 3 months KD 000's	***3 to 12 months KD 000's***	***Over 1 year KD 000's***	***Total KD 000's***
2014				
Credit related commitments	673,461	844,771	424,450	**1,942,682**
Investment related commitments	-	-	113,175	**113,175**
	673,461	**844,771**	**537,625**	**2,055,857**
2013				
Credit related commitments	704,639	641,462	228,748	1,574,849
Investment related commitments	-	-	104,816	104,816
	704,639	641,462	333,564	1,679,665

31 RISK MANAGEMENT (continued)

31.3 LIQUIDITY RISK (continued)

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 financial assets at fair value through profit or loss and financial assets available for sale is determined based on management's estimate of liquidation of those financial assets. The actual maturities may differ from the maturities shown below since borrowers may have the right to prepay obligations with or without prepayment penalties.

2014	*1 to 3 months KD 000's*	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
ASSETS				
Cash in hand and at banks	**1,512,628**	**2,958**	**93**	**1,515,679**
Treasury bills and bonds	**263,240**	**194,570**	**172,009**	**629,819**
Loans and advances	**1,412,840**	**1,233,622**	**2,118,160**	**4,764,622**
Financial assets at fair value through profit or loss	**24,554**	**4,684**	**37,512**	**66,750**
Financial assets available for sale	**53,915**	**28,152**	**282,710**	**364,777**
Financial assets held to maturity	**-**	**288**	**47,678**	**47,966**
Other assets	**71,872**	**60,647**	**226,493**	**359,012**
Properties held for trading	**-**	**13,359**	**45,490**	**58,849**
Investment in associates	**-**	**-**	**393,301**	**393,301**
Investment in a media joint venture	**-**	**-**	**162,698**	**162,698**
Investment properties	**-**	**-**	**386,678**	**386,678**
Property, plant and equipment	**-**	**-**	**244,024**	**244,024**
Intangible assets	**-**	**-**	**333,976**	**333,976**
	3,339,049	**1,538,280**	**4,450,822**	**9,328,151**
LIABILITIES AND EQUITY				
Due to banks and other financial institutions	**929,126**	**683,879**	**223,080**	**1,836,085**
Deposits from customers	**4,004,494**	**786,765**	**50,762**	**4,842,021**
Other borrowed funds	**34,330**	**28,601**	**960,885**	**1,023,816**
Other liabilities	**170,542**	**77,633**	**103,577**	**351,752**
Equity	**-**	**-**	**1,274,477**	**1,274,477**
Total liabilities and equity	**5,138,492**	**1,576,878**	**2,612,781**	**9,328,151**
2013				
ASSETS				
Cash in hand and at banks	1,370,793	2,572	175	1,373,540
Treasury bills and bonds	256,989	211,656	115,002	583,647
Loans and advances	1,725,196	971,922	1,636,939	4,334,057
Financial assets at fair value through profit or loss	31,778	916	15,887	48,581
Financial assets available for sale	30,716	44,468	352,735	427,919
Financial assets held to maturity	3,063	-	14,733	17,796
Other assets	64,455	119,289	170,231	353,975
Properties held for trading	-	7,963	41,855	49,818
Investment in associates	-	-	376,951	376,951
Investment in a media joint venture	-	-	144,133	144,133
Investment properties	-	3,205	359,356	362,561
Property, plant and equipment	-	-	229,919	229,919
Intangible assets	-	-	334,652	334,652
	3,482,990	1,361,991	3,792,568	8,637,549
LIABILITIES AND EQUITY				
Due to banks and other financial institutions	770,325	763,907	47,795	1,582,027
Deposits from customers	3,475,591	1,200,448	53,842	4,729,881
Other borrowed funds	41,151	174,648	648,249	864,048
Other liabilities	113,719	64,579	169,190	347,488
Equity	-	-	1,114,105	1,114,105
Total liabilities and equity	4,400,786	2,203,582	2,033,181	8,637,549

31 RISK MANAGEMENT (continued)

31.4 MARKET RISK

Market risk is the risk that the value of an asset 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 financial assets 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 industrial concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

31.4.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or cash flows of the financial instruments. Each subsidiary of the Group manages the internal rate risk at their entity level. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. This arises as a result of mismatches or gaps in the amounts of assets and liabilities and commitments 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 (treasury bills and bonds, loans and advances, due to banks and other financial institutions, deposits from customers, loans payable, bonds and medium term notes).

The following table demonstrates the sensitivity of the profit before taxation to reasonably possible changes in interest rates after the effect of hedge accounting, with all other variables held constant.

Based on the Group's financial assets and liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact the Group's profit before taxation as follows:

Currency	***Increase of 25 basis points*** *Increase (decrease) in profit before taxation*	
	2014	*2013*
	KD 000's	*KD 000's*
KD	**3,224**	2,776
US$	**(479)**	257
EURO	**2**	(7)
GBP	**(5)**	(1)

The decrease in the basis points will have an opposite impact on the Group's profit before taxation. Also, as there are no material interest bearing financial assets available for sale, no sensitivity of other comprehensive income has been disclosed.

31.4.2 Foreign currency risk

Currency risk is the risk that the value of the financial instrument will fluctuate due to changes in the foreign exchange rates. The Group incurs foreign currency risk on transactions denominated in a currency other than the KD. The Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the KD. The Group also uses the hedging transactions to manage risks in other currencies.

31 RISK MANAGEMENT (continued)

31.4 MARKET RISK (continued)

31.4.2 Foreign currency risk (continued)

The table below analyses the effect on profit before taxation (due to change in the fair value of monetary assets and liabilities) and equity of an assumed 5% strengthening in the value of the currency rate against the KD from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, whereas a positive amount reflects a net potential increase.

	Change in currency rate by + 5%			
Currency	*Effect on equity*		*Effect on profit before taxation*	
	2014	*2013*	***2014***	*2013*
	KD 000's	*KD 000's*	***KD 000's***	*KD 000's*
US$	**3,397**	1,013	**(11,022)**	(20,273)
EURO	**-**	-	**349**	(274)
GBP	**-**	-	**(215)**	34

An equivalent weakening in each of the above mentioned currencies against the KD would result in an equivalent but opposite impact.

31 RISK MANAGEMENT (continued)

31.4 MARKET RISK (continued)

31.4.3 Equity price risk

Equity price risk arises from changes in the fair values of equity investments. The unquoted 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.

The Group conducts sensitivity analysis on regular intervals in order to assess the potential impact of any major changes in fair value of equity instruments. Based on the results of the analysis conducted there are no material implication over the Group's profit and equity for a 5% fluctuation in major stock exchanges.

The Group's financial assets at fair value through profit or loss and financial assets available for sale in different geographical regions are as follows:

	MENA 2014 KD 000's	***Europe 2014 KD 000's***	***North America 2014 KD 000's***	***Asia 2014 KD 000's***	***Total 2014 KD 000's***	*Total 2013 KD 000's*
Financial assets at fair value through profit or loss						
Quoted equity securities	27,249	384	5,754	458	**33,845**	23,124
Managed funds	3,392	183	16,053	-	**19,628**	8,323
	30,641	**567**	**21,807**	**458**	**53,473**	31,447
Financial assets available for sale						
Quoted equities	67,454	-	-	-	**67,454**	60,602
Unquoted equities	44,053	10,929	7,477	-	**62,459**	89,683
Managed funds	38,749	8,819	37,819	-	**85,387**	82,397
	150,256	**19,748**	**45,296**	**-**	**215,300**	232,682

31 RISK MANAGEMENT (continued)

31.4 MARKET RISK (continued)

Industrial distribution
The Group's financial assets at fair value through profit or loss and financial assets available for sale in different industry sectors are as follows:

2014	***Financial assets at fair value through profit or loss KD 000's***	***Financial assets available for sale KD 000's***
Sovereigns	**7,952**	**59,430**
Banking	**5,629**	**26,925**
Investment	**10,926**	**57,179**
Trade and commerce	**295**	**1,802**
Real estate	**21,513**	**34,895**
Construction	**7,158**	**35,069**
	53,473	**215,300**

2013	*KD 000's*	*KD 000's*
Sovereigns	11,824	30,086
Banking	14,456	98,033
Investment	453	41,959
Real estate	-	29,531
Manufacturing	751	1,958
Construction	3,963	31,115
	31,447	232,682

31.5 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 than expected, such as fixed rate mortgages when interest rate fall. The fixed rate assets of the Group are not significant compared to the total assets. Moreover, other market conditions causing prepayment is not significant in the markets in which the Group operates. Therefore the Group considers the effect of prepayment on net interest income is not material after taking in to account the effect of any prepayment penalties.

31.6 OPERATIONAL RISK

Operational risk is the risk of loss arising from the failures in operational process, people and system that supports operational processes. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by Risk management. Risk management ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall Global risk management.

32 FAIR VALUE OF FINANCIAL AND NON FINANCIAL INSTRUMENTS

Fair value of financial instruments are not materially different from their carrying values except for certain financial assets available for sale which are carried at cost less impairment (note 6) and medium term notes whose fair value amounts to KD 656,516 thousand (note 15). For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

The fair value of the above investment securities is categorised as per the policy on fair value measurement in Note 2. Movement in level 3 is mainly on account of purchase, sale and change in fair value, which is not material to the Group's consolidated financial statements.

Debt securities included under level 3 consists of unquoted corporate bonds issued by banks and financial institutions. The fair values of these bonds are estimated using discounted cash flow methods using credit spreads (ranging from 1% to 3%). Equities and other securities included in these categories mainly include strategic equity investments and managed funds which are not traded in an active market. The fair values of these investments are estimated by using valuation techniques that are appropriate in the circumstances. Valuation techniques includes discounted cash flow models, observable market information of comparable companies, recent transactions information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue, profit estimate and market multiples such as price to book and price to earnings. Given the diverse nature of these investments, it is not practical to disclose a range of significant unobservable inputs.

Other financial assets and liabilities are carried at amortised cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in interest rates. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated using valuation techniques incorporating certain assumptions such as credit spreads that are appropriate in the circumstances.

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

Fair value measurement hierarchy as at 31 December 2014:

2014	*Level 1 KD 000's*	*Level 2 KD 000's*	*Level 3 KD 000's*	*Total fair value KD 000's*
Assets measured at fair value				
Financial assets at fair value through profit or loss:				
Quoted equity securities	33,845	-	-	**33,845**
Debt securities	8,007	-	5,270	**13,277**
Managed funds	18,950	678	-	**19,628**
Financial assets available for sale:				
Equities	67,441	23,108	19,361	**109,910**
Debt securities	133,280	-	15,796	**149,076**
Managed funds	-	43,035	42,085	**85,120**
Derivatives	-	19,113	-	**19,113**
Liabilities measured at fair value				
Derivatives	-	(14,199)	-	**(14,199)**

32 FAIR VALUE OF FINANCIAL AND NON FINANCIAL INSTRUMENTS (continued)

Fair value measurement hierarchy as at 31 December 2013:

2013	*Level 1* *KD 000's*	*Level 2* *KD 000's*	*Level 3* *KD 000's*	*Total fair value* *KD 000's*
Assets measured at fair value				
Financial assets at fair value through profit or loss:				
Quoted equity securities	23,124	-	-	23,124
Debt securities	12,143	-	4,991	17,134
Managed funds	7,575	748	-	8,323
Financial assets available for sale:				
Equities	60,602	-	66,542	127,144
Debt securities	168,399	-	26,838	195,237
Managed funds	13,339	65,142	3,916	82,397
Derivatives	-	27,260	-	27,260
Liabilities measured at fair value				
Derivatives	-	(19,415)	-	(19,415)

There were no material transfers between the levels during the year.

The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5%.

33 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, issue new shares or purchase/sale of treasury shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2014 and 31 December 2013.

The Group monitors capital at the level of the Parent Company and at each of the subsidiaries.

Based on considerations of various stakeholders (shareholders, rating agencies, debt markets) capital at the Parent Company is monitored in terms of a) Leverage and b) Net debt to portfolio value.

33 CAPITAL MANAGEMENT (continued)

Leverage is defined as total debt at the Parent Company level divided by the equity attributable to the equity holders of the Parent Company. The ability to take on leverage provides the Parent Company with the financial flexibility to effect investment decisions in a timely manner. The Parent Company expects that the leverage does not exceed the target of 2.5 times over the medium term. The Parent Company includes within total debt, loans payable, bonds and medium term notes and accrued interest thereon.

	2014	*2013*
	KD 000's	*KD 000's*
Loans payable	**40,000**	40,000
Bonds	**80,000**	80,000
Medium term notes	**436,889**	279,701
Accrued interest thereon	**11,999**	9,443
Total debt	**568,888**	409,144
Equity attributable to the equity holders of the Parent Company (excluding treasury shares held by subsidiaries of the Group)	**575,325**	560,430
Leverage	**0.99**	0.73

At the Parent Company level, net debt to portfolio value is a measure of the capacity to borrow and is defined as the ratio of gross debt, net of cash and cash equivalents to the portfolio value of financial assets. Portfolio value is computed as the sum of market value of listed financial assets and the fair value of unlisted financial assets. The Parent Company would not expect that the net debt to portfolio value would be outside the 20% to 30% target range over the medium term.

Each subsidiary of the Group is responsible for its own capital management and maintains a level of capital that is adequate to support its business and financial exposures. Furthermore, regulated subsidiaries of the Group are governed by the capital adequacy and/or other regulatory requirements in the jurisdictions in which they operate. The compliance to such capital adequacy and/or other regulatory requirements is monitored by each of the regulated subsidiaries on a regular basis.