# ANNUAL REPORT 2017


جلوبل
Global

# COMPANY PROFILE

Global Investment House K.S.C.C (Global) is a regional asset management and investment banking firm headquartered in Kuwait with offices in major capital markets in the MENA region. Established in 1998, Global is regulated by the Capital Markets Authority of Kuwait for the asset management, investment banking and brokerage businesses and Central Bank of Kuwait for its lending and financing businesses.

Global aims to meet the high expectations of local and international clients, and to enhance the investment service industry in Kuwait and the region. Global plays an important role in promoting investment opportunities in the Arabian Gulf Peninsula to international investors through expert financial engineering. We provide investors with a diverse scope of national and international investment opportunities, and facilitate those investments by providing clients with services that suit their individual needs, and exceed their expectations.

# CONTACTS

Global Tower, Al-Shuhada Street, Sharq, Kuwait
P.O.Box 28807 Safat, 13149 Kuwait
Tel: (965) 22951000, Fax: (965) 22951005

# INVESTOR RELATIONS

Investors seeking more information on Global may:

1- Visit our website www.globalinv.net
2- Call us on (965) 2295 1615
3- Send an e-mail to investors@global.com.kw

# TABLE OF CONTENTS

His Highness
Sheikh Nawaf Al-Ahmad
Al-Jaber Al-Sabah
*Crown Prince*

His Highness
Sheikh Sabah Al-Ahmad
Al-Jaber Al-Sabah
*Amir of the State of Kuwait*

# Board of Directors

Hareb M. Al-Darmaki
*Chairman*

Mr. Al-Darmaki, a UAE national, brings with him a wealth of experience spanning for more than 41 years in the investment and asset management industries in the region international markets. He has been with Abu Dhabi Investment Authority (ADIA) since 1976 and is currently the Advisor - Managing Director's office. During his career he served on the board of several regional and international organizations including Arab Banking Corporation, Q-Tel (Ooredoo), Abu Dhabi Investment Company and Abu Dhabi Securities Market, among others. He is currently the chairman of Gulf Capital, board member of AXA Green Crescent Insurance Company and a member of several investment and strategy committees.

He holds a Bachelor's Degree in Economics and Political Science from Bristol University in the United Kingdom, and a Master's Degree in International Studies from Johns Hopkins University, USA.

Maha K. Al-Ghunaim
*Vice Chairman*

Mrs. Al-Ghunaim has over 35 years of experience in the financial services sector with primary focus on asset management and investment banking. She served on the board of several regional companies and advisory boards and held several senior positions. She founded Global in 1998 with other distinguished members and has managed the company till 2017.

Mrs. Al-Ghunaim holds BS in Mathematics from San Francisco State University, California, USA. She received notable regional and international recognitions.

Ali Ojjeh
*Director*

Mr. Ojjeh has over 27 years of experience in Principal Investments, Corporate Finance and Asset Management. He is Founding Partner & Chief Investment Officer of The Capital Partnership Group (TCP) in London and serves on the board of several companies. During his career, he held several leading positions at large international investment banks including Goldman Sachs and Morgan Stanley.

Mr. Ojjeh holds a BSc In Financial Economics from Carnegie-Mellon University (1989) and MBA from Stanford Business School (1995). He is a member of the advisory board of the Freeman Spogli Institute Studies at Stanford University and a member of the Advisory Council of Stanford Business School.

**Hamad T. Alhomaizi**
*Independent Director*

Mr. Alhomaizi has extensive experience in private equity, hedge funds, real estate and startups. He served on the board of several regional companies and has worked in various capacities and founded a number of successful ventures.

Mr. Alhomaizi holds a BS in Computer Science and Business Administration from The George Washington University, USA.

**Bader A. AL-Sumait**
*Director*

Mr. AL-Sumait has over 38 years of experience in asset management, banking and finance, and is a prominent figure in the Kuwaiti capital market. Before co-founding Global in 1998, he was the Managing Director of the Arab Financial Consultants Company. Mr. AL-Sumait is the Chairman and Board Member of several local and regional institutions.

Mr. AL-Sumait received his Bachelor's degree from Chapman University in the USA.

**Abdul wahab Al-Halabi**
*Director & Chief Executive Officer*

Mr. Al-Halabi has over 21 years of experience in the fields of executive management. He involved in the REIT industry in the region. Prior to that, he was the Group Chief Investment Officer of Meraas Holding, a leading UAE based developer where he was responsible for the group's capital markets, investments, funding and finance functions. He has also been the Chief Executive Officer of Dubai Properties and held various senior positions within the Dubai Holding group focusing on their development and leisure businesses. He started his career with KPMG in London working on debt advisory services and restructuring and for two years was a partner at KPMG Dubai co-heading the transaction and restructuring unit in the UAE and Oman.

Mr. Al-Halabi holds a degree in Economics from London School of Economics, and is a fellow of the Institute of Chartered Accountants in England and Wales

**Bassam Yammine**
*Director*

Mr. Yammine has vast experience in investment banking and private equity. He is the CEO of Excelsa Development Holding, a diversified investment holding company that invests in operating companies active in the real estate, oil & gas, and manufacturing sectors in Africa, the Middle East, and North America. Prior to founding Excelsa in 2013, he held several executive positions with financial institutions including Credit Suisse and Audi Saradar Group and in 2005 he served in the Government of the Republic of Lebanon as Minister of Energy and Water.

Mr. Yammine holds an M.B.A. in Finance from the University of Chicago and M.S. and B.A degrees from Loyola Marymount University.

# BOARD OF DIRECTORS' REPORT

The Board of Directors of Global Investment House takes pleasure in presenting the 19th Annual report of the Company together with the financial statements for the year ended 31 December 2017.

*Dear Shareholders,*

On behalf of the Board of Directors of Global, it is a great pleasure to report on your Company's financial performance and the progress made during 2017.

We are delighted to report that 2017 financial results reflect consistent performance. The Company continued to be profitable for the fifth consecutive year despite a challenging macro-economic environment and geo-political uncertainties through progress made by its businesses in implementing their growth-driven, customer-focussed and yet risk-conscious strategies.

During 2017, the Company achieved a net profit of KWD2.5 million, albeit lower than 2016 net profit of KWD3.5 million. Total Income (revenues) for 2017 stood at KWD14.1 million. Fee-based businesses (asset management, investment banking and brokerage) contributed to 84% of total revenues, amounting to KWD11.9 million.

The Asset Management business generated total fee revenues of KWD9.1 million and remained focused on launching products and services best suited to our clients' investment needs offering recurring income/yield accompanied with low volatility. During the year, the Company raised over USD70.9 million of new money in various strategies primarily income-yielding UK real estate and has distributed to clients more than USD110.0 million from dividends and proceeds from exits.

MENA Asset Management continued to report competitive performance for its managed funds and portfolios in the regional equity markets resulting in recognitions from industry leaders. Several funds managed by the Company outperformed their respective benchmarks and peers.

The Real Estate Asset Management team has successfully acquired four properties in 2017 to raise the total assets acquired through the commercial real estate program launched late 2015 to seven assets with total value of GBP300 million. These properties were off-market investment opportunities outside Central London, of Grade A specifications, producing rental income on long-term triple-net leases with investment grade or government related entities. The team has successfully distributed an average annualized income of 9.25% on the managed assets since inception and is currently working on several transactions in the developed markets.

In Private Equity, the team's efforts to add value to portfolio companies resulted in achieving major milestones in implementing the growth strategies for several companies. The team successfully exited three portfolio companies and continued to provide its clients with liquidity in challenging geopolitical and economic environment.

Special Situations Asset Management, a tailored "wind-down" asset management service offered to clients seeking value enhancement and optimal realization of difficult assets portfolio covering multi asset classes with focus on the MENA region, has successfully executed the portfolios' strategies and resulted in generating cash inflows with an exit multiple around 1.6x to clients' target valuations.

During 2017, the Investment Banking team generated KWD0.4 million of fee-revenues from four different mandates in Kuwait and Saudi Arabia, including the sale of a controlling stake in one of the largest social infrastructure companies in Kuwait. The team is currently working on several mandates and has an interesting pipeline of M&A and advisory mandates.

On the brokerage front, Global made focused efforts to grow the institutional brokerage business leading to gains in Jordan market share. Due to handsome increase in the market turnover in Kuwait and market share gains in Jordan, the brokerage fee revenues recorded a 25.6% year-on-year growth to reach KWD0.8 million.

The Company's continuous efforts to control and rationalize its cost base resulted in a marginal KWD0.2 million decline in the operating cost base to KWD12.0 million, despite one-off impact of change in Kuwait Labor Law relating to leaving indemnities for Kuwaiti employees. Full impact of the change in law was recorded in 2017 financial results.

The Company has a healthy capital structure with no external debt and a capital base of KWD 69.9 million. Other liabilities of KWD10.0 million mainly reflect trade and staff related payables and are covered almost 3 times by cash in hand. The Company's capital is conservatively deployed primarily in liquid assets, operating assets and co-investments in the Company managed products. During 2017, following the shareholders' vote and regulatory approvals, we completed KWD 22.9 million distributions to the shareholders in lieu of capital reduction in par. On conclusion of the distribution and capital reduction the authorized, issued and fully paid share capital of the Parent Company reduced from KWD79,923 thousand to KWD57,017 thousand. Following the distributions, the Company maintains adequate capital and liquidity to fund its core fee business.

The board of directors has proposed a 5% cash dividend (KWD0.005 per share) for distribution to the shareholders subject to the annual general meeting of the shareholders' approval and transfer of 10% of profits before KFAS, Zakat and Directors' remuneration to the Statutory Reserve and a transfer of similar amount to general reserve.

The Board has proposed a KWD146.6 thousand remuneration for the year 2017. In accordance with a resolution of the shareholders in the annual general meeting dated 5 June 2016, the independent director was paid an annual fee of KWD25 thousand for his services. In accordance with annual general meeting dated 22 June 2017 decision, a KWD131 thousand remuneration was distributed to the directors for 2016. In addition, sitting/attendance fees was paid to the directors for attending board and board sub-committee meetings and reasonable travel and other incidental expenses incurred to attend such meetings were reimbursed. (Total such payments during 2017: KWD40 thousand).

The key management personnel compensation for the year 2017 amounted to KWD1.456 million including both fixed-pay (salary and fixed emoluments and benefits) and variable-pay (short-term incentives) paid to all the senior executives of the Group including the Chief Executive Officer, Deputy Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and all other members of the executive management.

During the year, we remained at the forefront in ensuring full compliance with the letter and spirit of the various applicable laws and regulations and kept ourselves abreast with new regulatory developments.

We look forward to focusing our efforts on developing the fee-generating lines of our core business, serve our clients even more effectively and offer diversified financial products and solutions that can protect and grow our clients' wealth even in challenging, uncertain and volatile economic environment.

We would like to express our sincere appreciation and gratitude to His Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, His Highness the Crown Prince Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, and His Highness the Prime Minister Sheikh Jaber Mubarak Al-Hamad Al-Sabah, in leading the nation towards a better future.

We would like to convey our gratitude to our shareholders, clients and employees for their resolute support and belief in our ability to deliver maximum value. We would also like to extend our sincere thanks and appreciation to the Ministry of Commerce and Industry, Capital Markets Authority Kuwait, Central Bank of Kuwait and other regulatory authorities in the region.

For and on behalf of the Board of Directors,

Hareb M. Al-Darmaki
Chairman

*21 February 2018*

# CORPORATE GOVERNANCE

Global's Board of Directors firmly believe in institutionalizing an effective governance framework across the Company. The Board of Directors aim to strike a balance between conforming to the highest governance & ethical standards and corporate performance. The Board, Management and employees of Global apply this philosophy while fulfilling their obligations and intend to foster trust among Global's stakeholders and shareholders.

Global's Corporate Governance framework has been implemented in a manner that is commensurate with the size, complexity and needs of Global, whilst respecting the high standards of various internationally followed practices and the requirements prescribed by the Capital Markets Authority of Kuwait (CMA). The Company has fully complied with all corporate governance rules under module 15 of CMA's Executive Regulation, and other applicable modules.

Consequently, the Board believes Global operates in an environment of good corporate governance.

**Board's Responsibilities**

The Board oversees and governs Global and establishes overarching strategic priorities, plans, goals, policies and programs of Global. The Executive Management ensures appropriate implementation of these Board mandates and manages Global in accordance with the directives of the Board. The Board has undertaken the necessary steps to define the roles, responsibilities and authorities of the Executive Management, while reserving the appropriate powers and mandates for itself.

Some of the key powers that the Board has reserved for itself are:

- Set and agree Global' s objectives, strategies and plans for achieving those objectives;
- Review the Corporate Governance processes and assess achievement of Corporate Governance objectives;
- Review and monitor the performance of the Board and Executive Management;
- Approve Global's funding and borrowing requirements;
- Approve annual budgets and ensure that performance is measured against budgets and business plans;
- Recommend acquisitions, mergers, takeovers and divestments of operating companies to the shareholders for their approval, when and as required by local law;
- Consider and approve the annual financial statements, interim statements, dividend announcements and notices to shareholders as per the recommendation of the Board Audit Committee;
- Assume ultimate responsibility for financial, operational and internal control and risk management systems;
- Take ultimate responsibility for regulatory compliance; and
- Ensure a balanced assessment of Global's reporting to stakeholders.

**Board's Composition**

As at 31 December 2017, the Board, comprised 7 members in total: 6 Non-Executive Directors, of which 2 were independent; and 1 Executive Director. The factors determining the independence of Directors are in line with the relevant CMA regulations.

Skills, knowledge, experience and attributes of Directors

The Board believes that a multitude of skills, backgrounds, experiences and knowledge profiles contribute towards the effective achievement of the Board's roles and responsibilities. Diversity of opinion is valued by the Board and as such, the Board of the Company reflects a range of attributes, namely:

- International exposure
- Operational experience;
- Technical expertise of the business, regulatory and economic environment, in which Global operates; and
- Financial sector experience and knowledge

## Board Meetings and Attendance

All Directors are expected to attend meetings of the Board and Board Committees on which they serve. They are expected to prepare for each meeting in advance and to dedicate sufficient time at each meeting as necessary to properly discharge their responsibilities to the Company and its shareholders.

Board and Board Committee meetings are scheduled at the commencement of each calendar year and held at least quarterly. Directors are provided with comprehensive documentation to enable their consideration of issues on which they will be requested to make decisions.

### Board of Directors Meetings in 2017

The Board met 8 times in 2017. The Board member's attendance at each meeting is given below:

| Name of Director | 17 January 2017 | 22 February 2017 | 12 April 2017 | 2 May 2017 | 1 June 2017 | 27 July 2017 | 18 October 2017 | December 2017 |
|---|---|---|---|---|---|---|---|---|
| Hareb M. Al-Darmaki | √ | √ | √ | √ | √ | √ | √ | √ |
| Maha K. Al-Ghunaim | √ | √ | √ | √ | √ | √ | √ | √ |
| Bader A. AL-Sumait | Not a member | √ | √ | √ | √ | √ | √ | √ |
| Abdul wahab Al-Halabi | √ | √ | √ | √ | √ | √ | √ | √ |
| Hamad T. Alhomaizi | √ | √ | √ | √ | √ | √ | √ | √ |
| Ali Ojjeh | √ | √ | √ | √ | √ | √ | √ | √ |
| Bassam Yammine | √ | √ | √ | √ | √ | Absent | √ | √ |

## Committees of the Board

The Board has instituted three Committees, with the purpose of ensuring that key issues around internal control, risk management and nomination & remuneration are overseen in a holistic manner. These mandates of the Committees are captured in the Committee charters and include responsibilities stipulated by various laws and regulations, and as approved by the Board.

### Board Audit Committee

The Committee fulfils the Board's oversight responsibilities towards the integrity of Global's financial statements; reviewing the qualifications, independence and performance of the Company's External Auditors; monitoring the performance of the Company's Internal Audit function; among others. The Committee was reconstituted during 2017.

### Composition (As of 31 December 2017)

- Mr. Bader A. AL-Sumait, Chairman of the Committee
- Mr. Hamad T. Alhomaizi, Member
- Mr. Bassam Yammine, Member
- Mr. Bader F. Kazmawi, Head of Internal Audit was Committee Secretary

### Committee Meetings

The Committee met 4 times during 2017 and the attendance at the Committee meetings was as follows:

| Name of Director | 21 February 2017 | 1 May 2017 | 25 July 2017 | 18 October 2017 |
|---|---|---|---|---|
| Abdul wahab Al-Halabi | √ | Not a member | | |
| Bader A. AL-Sumait | Not a member | √ | √ | √ |
| Hamad T. Alhomaizi | √ | √ | √ | √ |
| Bassam Yammine | √ | √ | √ | √ |

### Board Nomination & Remuneration Committee

This Committee discharges the responsibilities relating to compensation of Global's Board and Executive Management in line with their performance, qualifications and experience levels. The Committee also undertakes additional nomination related responsibilities as stipulated by the applicable CMA regulations. The Committee was reconstituted during 2017.

### Composition (As of 31 December 2017)

- Mr. Ali Ojjeh, Chairman of the Committee
- Mrs. Maha K. Al-Ghunaim, Member
- Mr. Bassam Yammine, Member
- Mr. Mohammad A. Al-Wuhaib, Head of HR & Administration was Committee Secretary

### Committee Meetings

The Board Remuneration Committee met 2 times during the year and the attendance is as follows:

| Name of Director | 21 February 2017 | 24 August 2017 |
|---|---|---|
| Ali Ojjeh | √ | √ |
| Maha K. Al-Ghunaim | Not a member | √ |
| Bassam Yammine | √ | √ |
| Hamad T. Alhomaizi | √ | Not a member |

### Board Risk Committee

The purpose of the Board Risk Committee is to advise the Board of Directors on matters of risk management. The Committee is responsible for defining the Company's risk appetite and promoting a risk-based approach to the management and internal controls of the Company, as well as reviewing the Company's major risk exposures and changes to its risk profile. The Committee was reconstituted during 2017.

### Composition (As of 31 December 2017)

- Mr. Ali Ojjeh, Chairman of the Committee
- Mr. Bader A. AL-Sumait, Member
- Mr. Hamad T. Alhomaizi, Member
- Mr. Ketan Kapoor, Head of Risk Management was Committee Secretary

### Committee Meetings

The Board Risk Committee met 4 times during the year and the attendance was as follows:

| Name of Director | 1 May 2017 | 27 July 2017 | 18 October 2017 | 5 December 2017 |
|---|---|---|---|---|
| Ali Ojjeh | √ | √ | √ | √ |
| Bader A. AL-Sumait | √ | √ | √ | Absent |
| Hamad T. Alhomaizi | √ | √ | Absent | √ |

## Management Committees

Management committees of Global oversee and monitor key business processes and undertake their responsibilities as per mandates approved by the Board and any applicable regulatory requirements.

### Executive Committee

The committee provides strategic oversight to the business departments of the Company and reviews the Company's overall performance.

### Asset Management Committee

The committee provides oversight to the asset management business of the Company.

### New Products Committee

The committee advises various business departments on the launch of their products.

HR Committee

The committee provides general oversight of Global's compensation structure including long-term rewards and benefits programs, to review and provide guidance on Global's human resources programs, workforce programs, talent review and leadership development and best place to work initiatives.

Credit Committee

The committee exercises due care, diligence, skill and oversight towards credit risk management in the loan portfolio of Global, within Board approved authorities.

Provisioning Committee

This committee approves provisions on the individual loan accounts and on an omnibus basis on the loan portfolio to ensure an accurate reflection of recoverability.

Loans Write Off Committee

This committee approves the loan writing offs per Central Bank of Kuwait's regulations and applicable accounting standards from time to time.

**Risk Management**

Global's risk philosophy is codified in a Board approved risk appetite, which emphasizes that risk creation and risk assumption at Global be a calculated and well-articulated processes. Consequently, Global has instituted a three lines of defence framework that relies on the front line business departments to manage their risk creation and risk assumption activities; an independent risk management department that challenges the risk creation and risk assumption of the front line, whilst ensuring appropriate controls, policies & processes exist to govern the risk creation and risk assumption; complemented by an independent internal audit function that verifies the efficacy of the controls, policies & processes.

The risk management department reports directly to the Board of Directors and provides regular feedback to the Board Risk Committee of the Company, regarding the integrity of the Company's risk management framework and the corporate risk profile.

**Internal Audit**

A risk-based audit approach is followed and the Board Audit Committee approves annual audit plans. The scope of work of the Internal Audit department is to determine whether Global's network of risk management, control and governance processes, as designed and represented by management, is adequate and functioning.

The Internal Audit Department verifies the adequacy and effectiveness of internal controls from operation, financial and statutory compliance point of view. A summary of significant observations along with any action plan identified by the management is placed quarterly before the Board Audit Committee for review and guidance. The Internal Audit Department reports to the Board Audit Committee.

**Compliance**

Global is licensed by the CMA in Kuwait and the credit business of the Company is regulated by the Central Bank of Kuwait. Various subsidiaries outside Kuwait are regulated by their jurisdictional regulators.

Global has a well-established Regulatory Compliance Department, which is independent and accountable to the Board. The function identifies, assesses, and monitors its compliance risk covering regulatory sanctions, financial loss, or reputation loss which may come because of failure to comply with all applicable laws, regulations, and codes of conduct and standards of good practice. The Regulatory Compliance Department has designed a holistic compliance program to provide reasonable assurance that the Company follows applicable laws and regulations issued by the applicable regulators.

Global has established a Board approved Anti-Money Laundering Policy to ensure compliance with high standards of anti-money laundering and combating terrorism financing practices. The Policy applies equally to Kuwait as well other operating jurisdictions.

The Regulatory Compliance Department acts as the Board's focal point in fulfilling compliance related responsibilities; ensuring that compliance programs exist for each department / subsidiary and providing reasonable assurance that the businesses comply with local laws and regulations.

### Financial Reporting
The Board is responsible for monitoring and reviewing the reliability of the financial statements, accounting policies and the information contained in the Annual Report. In undertaking this responsibility, the Directors are supported by on-going processes for identifying, evaluating and managing risks we face. The processes are implemented by management and independently monitored for effectiveness by Internal Audit, Risk Management and Board Committees.

### External Audit
Global's External Auditors during the year were M/ Al-Aiban, Al-Osaimi and Partners (Ernst & Young). The independence of the External Auditors is recognised and reviewed with the Auditors by the Board Audit Committee on an annual basis. Non-audit services are dealt with as follows:

- External Audit firms must have internal standards and processes to monitor and maintain their independence; and
- Safeguards must be in place to ensure that there is no threat to the objectivity and independence in the conduct of the audit, resulting from the provision of non-audit services by the External Auditors.

### Shareholder's Information
The Ordinary General Meeting of the Company for the financial year ending 31 December 2016 was held on 22 June 2017 at the premises Public Authority of Industry, in South Surra, Kuwait.

### Executive Management
As of 31 December 2017, members of the Executive Management (Positions of Executive Vice Presidents and above) comprised:
- Chief Executive Officer;
- Deputy Chief Executive Officer;
- Chief Operating Officer
- Chief Financial Officer;
- Executive Vice President, MENA Asset Management; and
- Executive Vice President, Wealth Management.

### Financial Calendar
The financial year for Global Investment House is from 1 January till 31 December.

### Registrar and Share Transfer Agent
**Kuwait Clearing Company**
P.O. Box 22077
Safat 13081
Kuwait
info@maqasa.com
www.maqasa.com

### Share Transfer System
The Company's shares are transferable through the depository system.

### Shareholding Pattern as on 31 December 2017
Shareholders of Global Investment House holding over 5% (as per the Share Registrar):

| Names of Shareholders | % Shareholding |
|---|---|
| NCH Ventures SPC | 69.528% |

### Distribution of Shareholding as on 31 December 2017 (as per the Share Registrar)

| | No. of shareholders | | No. Of shares | |
|---|---|---|---|---|
| **Range** | **Number** | **%** | **Number** | **%** |
| 1 - 99,999 | 1,885 | 93.50 | 18,465,851 | 3.239 |
| 100,000 - 499,999 | 87 | 4.32 | 16,103,769 | 2.824 |
| 500,000 - 999,999 | 19 | 0.94 | 13,439,956 | 2.357 |
| 1,000,000 - 4,999,999 | 16 | 0.79 | 33,336,904 | 5.847 |
| 5,000,000 - 9,999,999 | 3 | 0.15 | 19,870,316 | 3.485 |
| 10,000,000 - 24,999,999 | 5 | 0.25 | 72,525,750 | 12.72 |
| 25,000,000 - 49,999,999 | 0 | 0.00 | | 0 |
| 50,000,000 and above | 1 | 0.05 | 396,426,434 | 69.53 |
| **Total** | **2,016** | **100** | **570,168,980** | **100** |

### Corporate Governance Policy for Directors, Management and Employees

Global has a comprehensive Corporate Governance Policy (akin to a Business Charter) in place, which is applicable to the Board of Directors, Executive Management, and all employees of the Company. The Policy establishes appropriate checks and balance to:

- Reinforce the Company's code of conduct and ethics, covering key issues, such as but not limited to:
  - Compliance with laws / policies
  - Conduct relating to Global's duties towards the clients
  - Conduct relating to investment analysis, recommendations and actions
  - Conduct relating to the duties towards the Company
  - Confidentiality of information
  - Care of corporate assets
  - Financial responsibility
  - Internal controls and record keeping
  - Limits to authority
  - Obligation to report violations
- Govern related parties' transactions;
- Mitigate and manage conflicts of interest.
- Protect stakeholder rights
- Ensure appropriate disclosure & transparency

### Whistle Blowing

The Company has implemented a whistle blowing mechanism for internal parties to escalate issues if some policy, practice, or activity of the Company is in breach of law or regulatory requirements. The Company offers full protection to any whistle blowers and assures no retaliation because of whistle blowing, if such whistle blowing is done in good faith. The whistle blowing mechanism of the Company is governed by its internal whistle blowing policies and is also available on the Company's website at the following link: *https://www.globalinv.net/content/whistle-blowing*

### Addresses for Correspondence with the Company

Shareholders, beneficial owners and other parties for any correspondence with the Company can communicate, send/deliver the documents/ correspondence to the Company at the following addresses:

**Global Investment House**
Global Tower
Sharq, Shuhada Street
P.O.Box: 28807 Safat, 13149 Kuwait.
Tel: (965) 2295 1000
Fax: (965) 2295 1005
E-mail: global@global.com.kw

### Investor Relations Unit

The Investor Relations Unit is part of the Marketing & Investor Relations Department, to enhance communication & transparency with shareholders and redressal of shareholder complaints. The purpose of the Unit is:

- To oversee the performance of the registrar and transfer agent of the Company;
- To recommend measures for overall improvement in the quality of services to the investors; and
- To specifically consider complaints received from the shareholders of the Company.

### Disclosures on materially significant related party transactions

During 2017, the Company entered into various related party transactions, details of which can be found under note 18 – "Related party transactions and balances" of the Consolidated Financial Statements as of 31 December 2017.

### Value Creation for Various Stakeholders

#### Shareholders

The Board has kept the Company on the path of continued profitability for the fifth consecutive year, despite a challenging macro-economic environment and geo-political uncertainties. The Board has directed Management towards implementing growth-driven, client-focussed and yet risk-conscious strategies. The Board has also kept the Company on track with regards to focussing on core fee business, which contributed to 84% of the total revenue of the Company. Under the guidance of the Board, the Company ensured full compliance with the letter and spirit of the various applicable laws and regulations and kept abreast of new regulatory developments.

The Company remains committed to continuously creating value for stakeholders through its robust fee-based business model, innovative strategies and execution capabilities. During 2017, the Company achieved net profits of KWD2.5 million, albeit lower than 2016 net profit of KWD3.5 million. The Company has a healthy capital structure with no external debt and a capital base of KWD 69.9 million. Other liabilities of KWD10.0 million mainly reflect trade and staff related payables and are covered almost 3 times by cash in hand. The Company's capital is conservatively deployed primarily in liquid assets, operating assets and co-investments in the Company managed products.

### Clients

- Global Saudi Equity Fund outperforms TASI and ranks among top 5 best performing funds in the Kingdom in 2017
- Global Al-Mamoun Fund named best equity fund in Kuwait over three and five years by "Thomson Reuters Lipper"

### Employees

Global's business strategy is focused on core fee based business. As a key cornerstone of this strategy, Global focusses extensively on promoting a culture of challenge, dedication and commitment. Our business and people strategy is led by a strong and extensively experienced Executive Management, supported by employees who are continually upskilled and trained in the use of cutting edge industry tools.

### Geographical Presence

#### Saudi Arabia

Global operates in the Kingdom of Saudi Arabia through Global Investment House (Saudi Arabia), a closed Saudi Joint Stock Company (Global Saudi) registered with the Capital Markets Authority of Saudi Arabia. Global Saudi was registered in 2007, and received its commencement notice from the Capital Markets Authority of Saudi Arabia in the same year. The entity acts as principal and agent provide underwriting, managing funds and portfolio investments, advisory, arranging and custodian services.

#### United Arab Emirates

Global operates in the Dubai International Financial Centre (DIFC) through Global Investment House (DIFC), a Category 4 firm authorized and regulated by the Dubai Financial Services Authority (DFSA). On 18 April 2013, the Company was licensed to undertake services in arranging credit or deals in investments and advising on financial products or credit.

### Bahrain

Global operates in Bahrain through Global Investment House BSC(c) (Global Bahrain), a wholly owned subsidiary of Global Investment House, Kuwait. Global Bahrain started its operations in May 2004 and falls under the supervision of the Central Bank of Bahrain. The entity's activities are principally to provide brokerage services at the Bahrain Bourse and marketing investment products and services on behalf of the Parent Company

### Jordan

Global operates in Jordan through Global Investment House JSC (Global Jordan) and falls under the supervision of the Jordan Securities Commission. Global Jordan started its operations in July 2005 and carries out asset management, investment banking services, establishment and management of investment funds, brokerage services and custody. Global Jordan was acquired by First Securities Brokerage Company in Kuwait (A subsidiary of Global Investment House) in 2016.

### Turkey

Global operates in Turkey through a representative office, registered with the Ministry of Economy. The office undertakes private equity related activities such as deal origination and investment monitoring.

# EXECUTIVE MANAGEMENT

**Abdul wahab Al-Halabi**
*Director & Chief Executive Officer*

Mr. Al-Halabi has over 21 years of experience in the fields of executive management. He involved in the REIT industry in the region. Prior to that, he was the Group Chief Investment Officer of Meraas Holding, a leading UAE based developer where he was responsible for the group's capital markets, investments, funding and finance functions. He has also been the Chief Executive Officer of Dubai Properties and held various senior positions within the Dubai Holding group focusing on their development and leisure businesses. He started his career with KPMG in London working on debt advisory services and restructuring and for two years was a partner at KPMG Dubai co-heading the transaction and restructuring unit in the UAE and Oman.

Mr. Al-Halabi holds a degree in Economics from London School of Economics, and is a fellow of the Institute of Chartered Accountants in England and Wales

**Sulaiman M. Al-Rubaie**
*Deputy Chief Executive Officer*

Mr. Al-Rubaie has more than 17 years of experience in merchant banking and private equity. He has a wealth of experience across many areas including advisory, mergers & acquisitions, equity and debt capital markets and restructuring. He started his career with boutique investment bank, Brask and Company, in their placement and later in their M&A team. He then joined the investment banking team at Global before joining Eastgate Capital Group in Dubai as a member of their transactions team. He joined Global again in 2010 in the alternative asset management group and managed the overall restructuring of the Private Equity department and the numerous funds. He was promoted to become Executive Vice President in 2015 and Deputy CEO in April 2017.

Mr. Al-Rubaie received his MBA from London Business School and a Bachelor of Science Degree in Operations Research and Industrial Engineering from Cornell University, Ithaca, New York.

**Nawal Mulla-Hussain**
*Chief Operating Officer*

Ms. Mulla-Hussain is a professional with over 28 years of experience. She joined the Legal Department of Kuwait National Petroleum Company (KNPC) in 1989 and left five years later to join Kuwait Investment Authority (KIA) where she held a Legal Counsel position. At KIA she was part of the team entrusted with the establishment of Kuwait Small Projects Company, the first government initiative aimed at supporting small to medium projects in the local market. She left KIA in March 2004 to join Global Investment House. Since joining Global, Ms. Mulla-Hussain headed the Legal Department and was promoted to Executive Vice President Legal & Compliance in 2010 and played a vital role in the development and restructuring of the Company. In 2017 she was promoted to Chief Operating Officer heading the entire Support Group.

Ms. Mulla-Hussain holds a Law degree from Kuwait University

### Sunny Bhatia
*Executive Vice President - Chief Financial Officer*

Mr. Bhatia is a finance professional with over 29 years of experience. He joined Global in 2006 and brought with him a wealth of experience in banking, finance, accounting, auditing, consulting and financial advisory. Prior to joining Global, he was Financial Controller at National Bank of Bahrain. He has also worked with notable multinational firms including KPMG, Siemens and PricewaterhouseCoopers in various capacities. He obtained his Chartered Accountancy and Cost & Management Accountancy qualifications in 1988 and Bachelor of Commerce (with Honors) from Delhi University in 1985.

### Bader G. Al-Ghanim
*Executive Vice President*
*MENA Asset Management*

Mr. Al-Ghanim has over 17 years of experience in investment advisory, asset management, and derivatives. He has a wealth of experience in portfolio and fund management with focus on equities and fixed income in the MENA region. Prior to joining Global in 2010, he held senior positions at Kuwait & Middle East Financial Investment Company and Kuwait Financial Center.

Mr. Al-Ghanim holds a Bachelor of Science in Electrical Engineering and Bachelor of Arts in Economics from Boston University.

### Rasha A. Al-Qenaei
*Executive Vice President*
*Wealth Management*

Mrs. Al-Qenaei has more than 18 years of experience in the Wealth Management arena covering various client segments throughout the region including sovereign wealth funds. She joined Global in 2000 in Corporate Finance and was later moved to help set up the Wealth Management Department and became head of the department in 2011. She has historically served in many board positions.

Mrs. Al-Qenaei received her Bachelors of Science in Biological sciences from Kuwait University with a specialization in Molecular Biology and Genetics.

# Management Discussion and Analysis of Financial Performance and Results of Operations

## Overview

Global Investment House ("Global" or the "Company"), is a regional asset management and investment banking firm headquartered in Kuwait, with offices in major capital markets in the MENA region. The Company offers a comprehensive range of financial services to its clients complemented by its renowned research capabilities. The company was founded in 1998 by a team of investment professionals with the intention of being the "preferred investment bank in the Middle East".

Global is regulated by the Capital Markets Authority of Kuwait and Central Bank of Kuwait. Further its overseas operations (branches/ subsidiaries etc.) are regulated by respective capital markets regulatory authorities.

During 2017, the Company continued to generate net profit through progress made by all business pillars in implementing their growth-driven, customer-focussed and yet risk-conscious strategies. In backdrop of continued profitability in the past five years, the board of directors has proposed a 5% cash dividend to shareholders.

## Financial performance

Key financial highlights:

- Net profit attributable to equity holders of the parent company: KD2.5 million (2016: KD3.5 million)
- Total income (revenues): KD14.1 million (2016: KD14.7 million)
- Total assets (balance-sheet footing) of KD81.3 million (2016: KD102.7 million)
- Total fiduciary assets under management of KD909.5 million (2016: KD988.5 million)
- Net shareholders' equity: KD69.9 million (2016: KD90.5 million)

## Strategy, Business Model and Operations

The Company's strategy focuses on the growth of its fee business, whilst maintaining a conservative capital structure and remaining cost efficient.

Global's core operations are divided into three business segments:

1. Asset Management
2. Investment Banking
3. Brokerage

## Asset Management

**Overview**
Global has one of the largest asset management businesses in the region by reference to assets under management. Global's Asset Management segment is engaged in providing managed funds and portfolio management services on a fiduciary basis. This business unit offers conventional and Islamic investment funds in Kuwait and other GCC and MENA markets, as well as alternative investment products, including private equity funds and international real estate. The Asset Management team also offers open architecture portfolio management services customized to meet the client's investment objectives and risk appetite, and management of special situations assets. Special Situations Asset Management offers tailored asset management solutions to clients seeking value enhancement and optimal realization of portfolios that are considered non-core and difficult to manage. It covers a spectrum of assets including listed and private equities, alternative investments, among others, across the MENA region. Our client base of approximately 2,000 customers consists of high net worth individuals, family offices and institutional investors.

The strategy for traditional asset management is to offer a broad range of actively and passively managed GCC focused funds and attract institutional and other sophisticated investors assets for management by offering bespoke and innovative investment solutions through discretionary portfolio management services.

Private equity asset management strategy is focused on value creation and enhancement of existing portfolio investments, identifying suitable investment opportunities for deployment of available investable funds, monetizing portfolio investments ripe for exits and raising new funds for pre-identified investment opportunities. Real estate asset management team is focusing its efforts towards bringing income-yielding international real estate opportunities to its investors.

**2017 Performance**
As at 31 December 2017, total assets under management stood at KD909.5 million, representing diverse investment themes and strategies. This segment contributed KD10.2 million to revenues.

We successfully raised KD21.4 million of gross new money in various strategies including including income-yielding UK real estate and GCC and MENA listed equities. During 2017, our Private Equity and Special Situation Asset Management distributed KD33.3 million to investors primarily from successfully concluded exits and dividends received from the underlying portfolio companies.

As at 31 December 2017, the total assets managed by Global Saudi Arabia through Global Saudi Equity Fund and discretionary portfolios stood at KD40.3 million placing Global's Saudi operations among the most dominant non-bank fund managers in the Kingdom.

## Investment Banking

**Overview**
The Investment Banking segment provides private placements and public offerings of GCC and MENA equity and debt securities, merger and acquisition advice, listings, financial advisory and debt restructuring services. In respect of industry span, our Investment Banking segment has multi-sector capabilities covering financial services, insurance, retail, telecom, healthcare, manufacturing and real estate sectors.

Global's Investment Banking segment has helped to develop and maintain a loyal client base, including local and regional financial institutions, pension funds, corporate clients and the high net worth individuals across the GCC and MENA regions.

Future strategy for this business pillar is to focus and grow in Kuwait and Saudi Arabia and offer advisory services focusing on areas such as mergers and acquisitions, corporate advisory and restructuring to reflect current market conditions.

**2017 Performance**
During 2017, the Investment Banking team generated revenues of KD0.4 million from 4 different mandates, ranging from advisory to M&A mandates. The team is currently working on several mandates and has an interesting pipeline of M&A and advisory mandates.

## Brokerage

Our Brokerage segment provides a range of securities dealing and trading, margin trading and arranging securities custody services. Global Brokerage offers trading of equities and selected fixed income securities.

**2017 Performance**
During the year, requisite regulatory approvals were obtained and various steps initiated to close Oman brokerage operations.

Global Brokerage made focused efforts to grow the institutional brokerage business leading to gains in Jordan market share. Due to handsome increase in the market turnover in Kuwait and market share gains in Jordan, the brokerage fee revenues recorded a 25.6% year-on-year growth to reach KWD0.8 million.

**Regional Presence**
For the first five years of our operations, we focused primarily on investment products in Kuwait and offering Kuwaiti, GCC and international products in the Kuwait market. After establishing our position in Kuwait, we commenced a strategy of geographical expansion by establishing branches and subsidiaries in other GCC countries and the broader MENA region. Global currently has a local presence in 5 countries. Regional operations continue to contribute to the Company's business by enhancing our client base, raising new money and deal sourcing. We have been building our presence in the GCC and MENA with a strategic focus on becoming a key local player in each market. Global aims to increase its asset management and investment banking revenues from its regional operations in Kingdom of Saudi Arabia.

## Risk Management

The recognition and management of risk is an essential element of the Group's risk strategy. The Board, being ultimately responsible for the management of risks associated with the Group's activities, has established a framework of Board Committees, policies and controls to identify, assess, monitor and manage risk. Risk strategies and policies are approved by the Board. The Head of Group Risk Management reports directly to the Chairman of the Board and has access to the Board of Directors. In the ordinary course of business, the company assumes credit, market, operational and liquidity risk. Note 21 of the Consolidated Financial Statements provide information on the significant financial risks and the Company's approach to measure, monitor and manage those risks.

The Company's capital structure and asset allocation are conservative. The Company capital structure consists of shareholders' equity of KD69.9 million with no debt. Total current liabilities of KD10.0 million mainly consist of trade payables, provisions and staff entitlements related accruals. The Company's capital is conservatively deployed reflected by the allocation of its KD81.3 million total assets as follows:

| | |
|---|---|
| Bank balances and deposits | 39% |
| Co-investments in own funds | 21% |
| Loans to clients | 6% |
| Fixed assets | 10% |
| Residual investments | 13% |
| Trade receivables and others | 11% |

The Company's fee-based business model aims to seek growth by minimal use of balance sheet and leverage.

## Human resources and operating costs

We continue to owe our success to Global employees who have the requisite experience, technical skills, professional qualifications and accreditations and high ethical values. Global leaders focused on sustaining a positive internal atmosphere through employee engagement and internal communication.

The Company's continuous efforts to control and rationalize its cost base resulted in reducing our operating cost base from KD 12.3 million in 2016 to KD 12.0 million in 2017, despite a one-off impact despite one-off impact of change in Kuwait Labor Law relating to leaving indemnities for Kuwaiti employees. Full impact of the change in law was recorded in 2017 financial results.

# Responsibility Statement

**GLOBAL INVESTMENT HOUSE K.S.C.C.**

**Statement of Directors Responsibilities in respect to the Consolidated Financial Statements and Management Discussion and Analysis of Financial Performance**

**We confirm that to the best of our knowledge:**

a) the consolidated financial statements, prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted in the State of Kuwait for financial services institutions regulated by the Capital Markets Authority and the Central Bank of Kuwait present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2017, and its consolidated financial performance for the year and

b) the management report, or 'Management Discussion and Analysis of Financial Performance & Results of Operations', includes a fair review of the development and performance of the business and the position of the Company taken as a whole, together with a description of the principal risks and uncertainties that they face.

**Hareb M. Al-Darmaki**
Chairman

**Abdul Wahab Al-Halabi**
Director and Chief Executive Officer

21 February 2018

# Consolidated Financial Statement

# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GLOBAL INVESTMENT HOUSE K.S.C.(Closed)

EY

Building a better working world

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## Opinion

We have audited the consolidated financial statements of Global Investment House K.S.C. (Closed) (the "Parent Company") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the State of Kuwait.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other information included in the Parent Company's 2017 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Parent Company's 2017 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

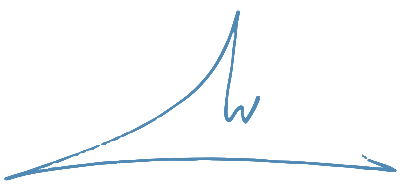
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**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.1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016, as amended and its executive regulations, as amended nor of the Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2017 that might have had a material effect on the business of the Parent Company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, or of the provisions of Law No. 7 of 2010, as amended, concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2017 that might have had a material effect on the business of the Parent Company or on its financial position.



**BADER A. AL-ABDULJADER**
LICENCE NO. 207 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

*21 February 2018*
*Kuwait*

Global Investment House K.S.C.(Closed) and its Subsidiaries

# CONSOLIDATED STATEMENT OF INCOME
## For the year ended 31 December 2017

| | Notes | 2017<br>KD '000 | 2016<br>KD '000 |
|---|---|---|---|
| **INCOME** | | | |
| Fees and commission income | 3 | **10,303** | 11,547 |
| Interest and similar income | 4 | **1,310** | 1,521 |
| Net gain on financial assets designated at fair value through profit or loss | 5 | **1,274** | 870 |
| Net gain on sale of financial assets available for sale | | **-** | 13 |
| Share of results of associates | | **-** | 2 |
| Loss on disposal of subsidiaries | 2 | **-** | (99) |
| Net loss on investment properties | | **(7)** | - |
| Foreign exchange loss | | **(277)** | (500) |
| Other operating income | 6 | **1,540** | 1,376 |
| | | **14,143** | 14,730 |
| **EXPENSES** | | | |
| Personnel expenses | | **8,376** | 8,410 |
| Other operating expenses | | **2,724** | 2,875 |
| Depreciation of property and equipment | 12 | **939** | 983 |
| Impairment losses | 7 | **51** | 507 |
| Net write back of provision for credit losses | 10 | **(669)** | (1,415) |
| | | **11,421** | 11,360 |
| **PROFIT BEFORE KFAS, ZAKAT AND DIRECTORS' REMUNERATION** | | **2,722** | 3,370 |
| Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) | | **(25)** | (32) |
| Zakat | | **(25)** | (38) |
| Directors' remuneration | | **(147)** | - |
| **PROFIT FOR THE YEAR** | | **2,525** | 3,300 |
| **Attributable to:** | | | |
| Equity holders of the Parent Company | | **2,512** | 3,462 |
| Non-controlling interests | | **13** | (162) |
| | | **2,525** | 3,300 |

*The attached notes 1 to 23 form part of these consolidated financial statements.*

Global Investment House K.S.C.(Closed) and its Subsidiaries

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## For the year ended 31 December 2017

| | 2017<br>KD '000 | 2016<br>KD '000 |
|---|---|---|
| **Profit for the year** | **2,525** | 3,300 |
| **Items of other comprehensive income (loss) that are or may be reclassified to the consolidated statement of income in subsequent periods:** | | |
| Net unrealised gain on financial assets available for sale | **42** | 4 |
| Gain transferred to consolidated statement of income on sale of financial assets available for sale | **-** | (13) |
| Impairment loss transferred to consolidated statement of income on financial assets available for sale | **7** | 112 |
| Exchange differences on translation of foreign operations | **(283)** | 245 |
| **Net other comprehensive (loss) income for the year** | **(234)** | 348 |
| **Total comprehensive income for the year** | **2,291** | 3,648 |
| **Attributable to:** | | |
| Equity holders of the Parent Company | **2,297** | 3,780 |
| Non-controlling interests | **(6)** | (132) |
| | **2,291** | 3,648 |

*The attached notes 1 to 23 form part of these consolidated financial statements.*

Global Investment House K.S.C.(Closed) and its Subsidiaries

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## As at 31 December 2017

| | Notes | 2017 KD'000 | 2016 KD'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Bank balances and deposits | 8 | **31,883** | 53,001 |
| Financial assets designated at fair value through profit or loss | 9 | **23,912** | 24,025 |
| Loans and advances | 10 | **4,682** | 4,149 |
| Financial assets available for sale | 11 | **3,288** | 1,235 |
| Investment in associates | | **134** | 141 |
| Investment properties | | **1,404** | 853 |
| Property and equipment | 12 | **7,985** | 8,880 |
| Other assets | 13 | **8,032** | 10,371 |
| **TOTAL ASSETS** | | **81,320** | 102,655 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 14 | **57,017** | 79,923 |
| Share premium | 14 | **8,796** | 8,796 |
| Treasury shares | 14 | **(8,796)** | (8,796) |
| Statutory reserve | 15 | **2,173** | 1,902 |
| General reserve | 15 | **2,173** | 1,902 |
| Cumulative changes in fair values | | **3** | (45) |
| Foreign currency translation reserve | | **1,171** | 1,434 |
| Retained earnings | | **7,313** | 5,343 |
| **Equity attributable to the equity holders of the Parent Company** | | **69,850** | 90,459 |
| Non-controlling interests | | **1,494** | 1,500 |
| **Total equity** | | **71,344** | 91,959 |
| **Liabilities** | | | |
| Other liabilities | 16 | **9,976** | **10,696** |
| **Total liabilities** | | **9,976** | 10,696 |
| **TOTAL EQUITY AND LIABILITIES** | | **81,320** | **102,655** |

**Hareb M. Al-Darmaki**
Chairman

**Abdul Wahab Al-Halabi**
Director and Chief Executive Officer

*The attached notes 1 to 23 form part of these consolidated financial statements.*

Global Investment House K.S.C.(Closed) and its Subsidiaries

# CONSOLIDATED STATEMENT OF CASH FLOWS
# For the year ended 31 December 2017

| | Notes | 2017 KD'000 | 2016 KD'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Profit for the year** | | **2,525** | 3,300 |
| **Adjustments for:** | | | |
| Depreciation of property and equipment | 12 | **939** | 983 |
| Net write back of provision for credit losses | 10 | **(669)** | (1,415) |
| Impairment losses | 7 | **51** | 507 |
| Interest and similar income | 4 | **(1,310)** | (1,521) |
| Dividend income | 6 | **(754)** | (848) |
| Share of results of associates | | **-** | (2) |
| Loss on disposal of subsidiaries | | **-** | 99 |
| Net loss on investment properties | | **7** | - |
| | | **789** | 1,103 |
| **Changes in operating assets and liabilities:** | | | |
| Financial assets designated at fair value through profit or loss | | **162** | (610) |
| Murabaha receivables | | **-** | 3,180 |
| Loans and advances | | **(21)** | (1,552) |
| Financial assets available for sale | | **(2,018)** | 2,351 |
| Other assets | | **1,375** | (1,137) |
| Other liabilities | | **(1,180)** | 164 |
| Cash flows (used in) from operations | | **(893)** | 3,499 |
| Interest and similar income received | | **1,511** | 1,307 |
| Dividend income received | | **754** | 848 |
| Net cash flows from operating activities | | **1,372** | 5,654 |
| **INVESTING ACTIVITIES** | | | |
| Net cash outflow on disposal of subsidiary | | **-** | (115) |
| Purchase of property and equipment | 12 | **(44)** | (58) |
| Proceeds from (investment in) deposits | | **25,123** | (17,065) |
| Net cash flows from (used in) investing activities | | **25,079** | (17,238) |
| **FINANCING ACTIVITY** | | | |
| Dividends paid to shareholders of the Parent Company | | **(178)** | (3,782) |
| Capital reduction amount paid to shareholders of the Parent Company | 14 | **(22,268)** | - |
| Net cash flows used in financing activity | | **(22,446)** | (3,782) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **4,005** | (15,366) |
| Cash and cash equivalents at 1 January | | **24,936** | 40,302 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 8 | **28,941** | 24,936 |

*The attached notes 1 to 23 form part of these consolidated financial statements.*

Global Investment House K.S.C.(Closed) and its Subsidiaries

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## For the year ended 31 December 2017

| | Attributable to the equity holders of the Parent Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Treasury shares | Statutory reserve | General reserve | Cumulative changes in fair values | Foreign currency translation reserve | Retained earnings | Sub-total | Non-controlling interests | Total |
| | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 |
| As at 1 January 2017 | 79,923 | 8,796 | (8,796) | 1,902 | 1,902 | (45) | 1,434 | 5,343 | 90,459 | 1,500 | 91,959 |
| Profit for the year | - | - | - | - | - | - | - | 2,512 | 2,512 | 13 | 2,525 |
| Other comprehensive income (loss) for the year | **-** | **-** | **-** | **-** | **-** | **48** | **(263)** | **-** | **(215)** | **(19)** | **(234)** |
| Total comprehensive income (loss) for the year | - | - | - | - | - | 48 | (263) | 2,512 | 2,297 | (6) | 2,291 |
| Transfer to reserves | - | - | - | 271 | 271 | - | - | (542) | - | - | - |
| Capital reduction (Note 14) | (22,906) | - | - | - | - | - | - | - | (22,906) | - | (22,906) |
| **As at 31 December 2017** | **57,017** | **8,796** | **(8,796)** | **2,173** | **2,173** | **3** | **1,171** | **7,313** | **69,850** | **1,494** | **71,344** |
| | | | | | | | | | | | |
| As at 1 January 2016 | 79,923 | 8,796 | (8,796) | 1,549 | 1,549 | (130) | 1,201 | 6,444 | 90,536 | 1,738 | 92,274 |
| Profit (loss) for the year | - | - | - | - | - | - | - | 3,462 | 3,462 | (162) | 3,300 |
| Other comprehensive income for the year | - | - | - | - | - | 85 | 233 | - | 318 | 30 | 348 |
| Total comprehensive (loss) income for the year | - | - | - | - | - | 85 | 233 | 3462 | 3,780 | (132) | 3,648 |
| Transfer to reserves | - | - | - | 353 | 353 | - | - | (706) | - | - | - |
| Dividends | - | - | - | - | - | - | - | (3,930) | (3,930) | - | (3,930) |
| Arising from disposal of subsidiary | - | - | - | - | - | - | - | - | - | (33) | (33) |
| Arising from change in non-ontrolling interests | - | - | - | - | - | - | - | 73 | 73 | (73) | - |
| As at 31 December 2016 | 79,923 | 8,796 | (8,796) | 1,902 | 1,902 | (45) | 1,434 | 5,343 | 90,459 | 1,500 | 91,959 |

*The attached notes 1 to 23 form part of these consolidated financial statements.*

Global Investment House K.S.C.C. and its Subsidiaries

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

## 1 CORPORATE INFORMATION

The consolidated financial statements of Global Investment House K.S.C. (Closed) (the "Parent Company") and its Subsidiaries (collectively the "Group") for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors of the Parent Company on 21 February 2018 and are subject to the approval of the general assembly of shareholders. The annual general meeting of the shareholders of the Parent Company has the power to amend these consolidated financial statements.

The Parent Company is a Kuwaiti shareholding company (closed) incorporated under the laws of the State of Kuwait on 16 June 1998. The Parent Company is regulated by the Capital Markets Authority of Kuwait as an investment company and Central Bank of Kuwait for financing activities.

The Group is principally engaged in provision of asset management, investment banking and brokerage activities. Its registered office is at Global Tower, Sharq, Al Shuhada St, P.O. Box 28807, Safat 13149, Kuwait. In accordance with the Parent Company's Memorandum and Articles of Association the principal activities of the Parent Company comprise the following:

- Sale and purchase of securities for its own account or on behalf of others, so long as such activities are consistent with the provisions of relevant laws.
- Lend, borrow and issue bonds in accordance with the provisions of law and provide financing for foreign trade.
- Conduct financial brokerage, manage investments for account of others and establish and manage the collective investment schemes.
- Research, financial advisory, provide technical and administrative consultancy services for projects and prepare economic feasibility studies.
- Establish or participate in establishing the companies of various types, purposes and jurisdictions and deal in sale and purchase of shares, bonds or other financial instruments issued by these companies.
- Manage the financial and real estate portfolios for its own account or on behalf of others, invest in or establish mutual funds for its clients in all types of financial instruments and investment strategies, whether locally or internationally.
- Manage the real estate on behalf of clients both in Kuwait and abroad.
- Local and foreign real estate investment operations that aim at developing land for commercial or residential purposes, constructing housing and commercial units and complexes for sale or leasing.

The Parent Company is allowed to conduct the above mentioned operations inside or outside the State of Kuwait by its own account or in fiduciary capacity acting as an agent for other parties. The Parent Company may have an interest or in any way associate itself with entities in similar lines of business or activities which may assist the Parent Company in achieving its objectives in Kuwait or abroad, or may establish, or acquire these entities or get affiliated to such entities in any manner.

The Group primarily operates in the Gulf Co-operation Council (GCC) and other Middle Eastern and North Africa (MENA) countries. The Ultimate Parent Company of the Group is NCH Ventures S.P.C, an entity established in the Kingdom of Bahrain.

## 2.1 BASIS OF PREPARATION

The consolidated financial statements are prepared under the historical cost convention except for financial assets designated at fair value through profit or loss, certain financial assets available for sale and investment properties that have been measured at fair value.

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

The consolidated financial statements of the Group have been prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait (CBK). These regulations include a requirement for adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for a collective impairment provision, which has been replaced by the CBK's requirement for a minimum general provision.

## 2.2 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). 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.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and 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; and
- The Group's voting rights and potential voting rights.

The Group re-assesses at each reporting date 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 during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Non-controlling interests represent the equity in the subsidiaries not attributable directly, or indirectly, to the equity holders of the Parent Company. Equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity.

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 related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in the consolidated statement of income. Any investment retained is recognised at fair value.

The principal operating subsidiaries of the Group are as follows:

| | Effective interest | | | |
|---|---|---|---|---|
| **Name of subsidiary** | **2017** | 2016 | **Principal activities** | **Country of incorporation** |
| Directly held subsidiaries | | | | |
| First Securities Brokerage Company K.S.C. (Closed) ("FSBC") | **93.23%** | 93.23% | Brokerage services | Kuwait |
| Global Investment House Saudia ("Global Saudia") | **99.86%** | 99.86% | Asset management and advisory services | Saudi Arabia |
| Indirectly held subsidiary through FSBC | | | | |
| Global Investment House Company Limited Liability-Jordan ("Global Jordan") | **93.23%** | 93.23% | Brokerage Services | Jordan |

The financial statements of the subsidiaries are prepared for the same reporting dates as of the Parent Company, using consistent accounting policies. All inter-group balances and transactions, including inter-group profits and unrealised profits and losses and dividends are eliminated on consolidation.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) 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 interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in 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 acquirer.

Global Investment House K.S.C.C. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in the consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, 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 the consolidated statement of income.

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 has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

### b) Cash and cash equivalents for cash flow purpose

Cash and cash equivalents include 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.

### c) Financial instruments

#### i. Financial assets – initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as "financial assets designated at fair value through profit or loss", "loans and receivables" and "financial assets available for sale". The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

#### ii. Financial 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 represent financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are designated upon initial recognition at fair value through profit or loss if they are managed and their performance is evaluated on fair value basis in accordance with documented investment strategy.

After initial recognition financial assets at fair value through profit or loss are remeasured at fair value with all changes in fair value recognised in the consolidated statement of income.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), 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 EIR.

Loans and advances are financial assets originated by the Group by providing money directly to the borrower that have fixed or determinable payments and are not quoted in an active market. Loans and advances are stated at amortised cost, net of provision for impairment losses.

**Financial assets available for sale**
Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, financial assets held to maturity or loans and receivables.

After initial measurement, financial assets available for sale are measured at fair value with unrealised gains and losses being recognised in other comprehensive income under the cumulative changes in fair value reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated statement of income or until the investment is determined to be impaired at which time the cumulative gain and loss previously reported in equity is recognised in the consolidated statement of income. Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

The Group evaluates whether the ability and intention to sell its financial assets available for sale 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 do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. 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 fair value 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 the consolidated statement of income over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of income.

iii. Derecognition of financial assets
A financial asset (or, where applicable a part of financial asset or part of Group of similar financial assets) is derecognised when:

- rights to receive cash flows from the assets have expired; or
- 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 risks and rewards of the asset but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass- through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership when it has neither transferred nor retained substantially all 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.

iv. 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 and loans and borrowings 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 payables and borrowings, net of directly attributable transaction costs.

v. Financial liabilities- Subsequent measurement
The measurement of financial liabilities depends on their classification as described below:

**Financial liabilities at fair value through profit or loss**
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the consolidated statement of income.

Financial liabilities designated upon initial recognition at fair value through profit or loss at the initial date of recognition, and only if criteria of IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

vi. 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 statement of income.

### d) Offsetting of financial instruments
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.

### e) Fair value measurement
The Group measures financial instruments, such as, financial assets designated at fair value through profit or loss, financial assets available for sale, and non-financial assets such as investment properties, at fair value at each statement of financial position date. 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 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 best economic interest.

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

Fair values for financial instruments traded in active markets are based on closing bid prices. For all other financial instruments including financial instruments for which the market has become inactive, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the fair value derived from recent arm's length transaction, comparison to similar instruments for which market observable prices exist, discounted cash flow method or other relevant valuation techniques commonly used by market participants. For investments in equity instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost, less impairment.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements and categorised within the fair value hierarchy, described in Noted 23 based on the lowest level input that is significant to the fair value as a whole.

The fair value of financial instruments carried at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

### f) Impairment of financial instruments
An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or 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 (or events) 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 borrower 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 economic conditions that correlate with defaults. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

Impairment is determined as follows:
- for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original EIR; and
- for assets carried at cost, impairment is the difference between actual cost and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

For non-equity financial assets 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 statement of income. 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.

**Loans and advances**
The Group assesses whether objective evidence of impairment exists on an individual basis for each individual significant loan and collectively for others.

The main criteria that the Group uses to determine that there is objective evidence of an impairment consideration include whether any payment of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral, etc. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful assessment. In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

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

In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity 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. When 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 statement of income - is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through consolidated statement of income; increases in their fair value after impairment are recognised directly in consolidated statement of comprehensive income.

g) Investment in associates

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.

The Group's investments in its associates are accounted for under the equity method of accounting.

Under the equity method, investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The Group recognises in the consolidated statement of income its share of the total recognised profit or loss of the associate from the date that influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the associate arising from changes in the associate's equity that have not been recognised in the associate's statement of income. The Group's share of those changes is recognised directly in equity. Unrealised gains on transactions with an associate are eliminated to the extent of the Group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is

Global Investment House K.S.C.C. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value.

The difference in reporting dates of the associates and the Group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements. The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

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

### h) Investment properties

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, all investment properties are carried at fair value that is determined based on valuations performed by independent valuers at the end of each year using valuation methods consistent with the market conditions at the reporting date. Gains or losses from change in the fair value are recognised in the consolidated statement of income.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of income in the year of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use. Transfer from properties under development are made upon completion of the work and the property being ready for the its intended use at carrying value and subsequently fair valued at reporting date.

### i) Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. 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 statement of income.

The carrying values of property 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.

Depreciation is provided on all property and equipment, except land and work in progress, at rates calculated to write off the cost of each asset on a straight line basis to their residual values over its expected useful life which is between 3 to 5 years for all property and equipment except for certain building fixtures and fittings which are depreciated over expected useful life of 10 years and building civil structure which is depreciated over its expected useful life of 20 years.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

### j) 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 impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised to their residual values 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 treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income within other expenses. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually or more frequently if events or change in circumstances indicate the carrying value may be impaired, either individually or at the cash generating unit level. 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 statement of income when the asset is derecognised.

### k) 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. When 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 CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of seven years. For longer periods, a long-term growth rate is calculated and applied to projected future cash flows after the seventh year.

Impairment losses of continuing operations are recognised in the consolidated statement of income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGUs recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

### l) Provisions

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.

### m) 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 termination on the reporting date.

### n) 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.

Global Investment House K.S.C.C. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

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. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

### o) 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 and balances**

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or consolidated statement of income is also recognised in other comprehensive income or consolidated statement of income, respectively).

**Group companies**

On consolidation, the assets and liabilities of foreign operations are translated into Kuwaiti Dinars at the rate of exchange prevailing at the reporting date and their statements of income are translated at average exchange rates during the year where such averages are reasonable approximation of actual rates. The exchange differences arising on the translation are recognised in 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 statement of income.

### p) Revenue 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 payment is made. Revenue is measured at the fair value of the consideration received or receivable. The Group assesses its 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 most of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

**Fees and commission income**

The Group earns fees and commission income from diverse range of asset management, investment banking, custody and brokerage services provided to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include management fees on asset management activities, custody fees and recurring retainer and advisory fees.

**Fee income from providing transaction services**

Fees arising for rendering specific advisory services, brokerage services, placement fees, incentive fees, equity and debt placement transactions for a third party or arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

**Interest and similar income**

Interest and similar income are considered as an integral part of the effective yield of a loan receivable and is recognised using the effective yield method, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

**Dividends**

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

q) KFAS, Zakat and taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

The contribution to KFAS is calculated at 1% of taxable profit of the Group in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that 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 Group in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 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.

r) 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.

s) Contingencies

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

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

## 2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the accompanying disclosures and the disclosure of contingent liabilities, at the end of the reporting period. However uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

**Classification of financial instruments**

Judgements are made in the classification of financial instruments based on management's intention at acquisition. Classification of financial assets as fair value through profit or loss depends on how management monitors the performance of these financial assets. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of consolidated statement of income in the management accounts, they are classified as fair value through profit or loss.

Classification of financial assets as loans and receivables depends on the nature of the asset. If the Group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

All other financial assets are classified as available for sale.

**Classification of real estate**

Management decides on acquisition of a real estate whether it should be classified as property held for development or investment property.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use. For an owner occupied property which is partly let out, management uses its judgment to ascertain classification of the property based on the long term intended use and the Group does not change the classification for short term change in use.

**Impairment of available for sale equity investments**

The Group treats available for sale equity investments 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. In making this judgement, the Group evaluates among other factors, historical share price movement, duration and extent to which the fair value of investment is less than cost

Global Investment House K.S.C.C. and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

**Impairment of associates**
After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss on the Group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

**Control assessment**
When determining control, management considers whether the Group has the practical ability to direct the relevant activities of an investee on its own to generate returns for itself. The assessment of relevant activities and ability to use its power to affect variable return requires considerable judgment.

**Structured entities**
The Group uses judgment in determining which entities are structured entities. If the voting or similar rights are not the dominant factor in deciding who controls the entity and such voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual arrangements, the Group identifies such entities as structured entities. After determining whether an entity is a structured entity, the Parent Company determines whether it needs to consolidate this entity based on the consolidation principles of IFRS 10. The management of the Parent Company has determined that it does not have any such structured entities that requires consolidation.

The management has determined that the Investment Funds managed by the Parent Company on fiduciary basis are not structured entities considering voting and similar right available to the unit holders of the Investment Fund. The Parent Company's interest in these Investment Funds (if any) is classified as financial assets designated at fair value through profit or loss.

The Parent Company is the major shareholder of certain entities either for the Parent Company's investment banking mandates or for the Parent Company's assets management activities. The Parent Company has no material direct beneficial interest in these entities and accordingly they are not consolidated into the Group's consolidated financial statements. Further, the Parent Company has not directly earned any revenue from these entities or transferred any assets to these entities during the year.

Estimates and assumptions
The key assumptions concerning the future and key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of the assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

**Impairment of goodwill and intangible assets**
The Group determines whether goodwill and intangible assets are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is 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.

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

- Recent arm's length market transactions;
- Price to book value or earnings model;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

**Useful lives of depreciable assets**
Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and equipment.

**Impairment of loans to customers**
An estimate of the collectible amount of loans to customers is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

## 2.5 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies applied are consistent with those used in the previous year. Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2017 did not have any material impact on the accounting policies, financial position or performance of the Group;

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). Since the Group does not have changes in their liabilities arising from financing activities, adoption of this amendment did not result in any impact on the accounting policies, financial position or performance of the Group.

## 2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

**IFRS 9: Financial Instruments**
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. IFRS 9 sets out the requirements for recognizing and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group has determined the date of initial application for IFRS 9 to be 1 January 2018. The classification, measurement and impairment requirements are applied retrospectively by adjusting the opening consolidated statement of financial position at 1 January 2018. The Group will not restate the comparatives as permitted by IFRS 9.

a. Classification and measurement
The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through statement of income.

Equity instruments are measured at fair value through profit or loss. However, the Group may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as fair value through other comprehensive income, with no subsequent recycling to consolidated statement of income. This designation is also available to non-trading equity instrument holdings on date of transition.

The adoption of this standard will have impact 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.

b. Hedge accounting
The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The Group will adopt accounting requirements of hedge accounting requirements as per IFRS 9 and does not expect any significant impact on its consolidated financial position.

c. Impairment of financial assets
The impairment requirements apply to financial assets measured at amortised cost, loans and advances, certain other assets and financial guarantee contracts. The IFRS 9 expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39.

The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

The assessment of credit risk and the estimation of ECL is required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time

Global Investment House K.S.C.C. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile.

d. Transition impact:

Upon adoption of IFRS 9, the Group will reclassify available-for-sale financial assets amounting to KD 2,692 thousand to financial assets carried at fair value through profit or loss and reclassify financial assets carried at fair value through profit or loss of KD 6,306 thousand to financial assets carried at fair value through other comprehensive income. This reclassification will result in decrease of retained earnings and increase of cumulative changes in fair value reserve by KD 55 thousand as on 1 January 2018.

Further, since the loans and advances comprise of impaired facilities and newly granted facilities that are fully secured, upon adoption of IFRS 9 on 1 January 2018 there will be no material impact on the consolidated financial statements of the Group.

e. Financial instruments: disclosures (IFRS 7)

The new standard also introduces expanded disclosure requirements and changes in presentation. These amendments are not expected to change the nature and extent of the Group's disclosures about its financial instruments in its consolidated financial statement in the year of the adoption.

**15 Revenue from Contracts with Customers**

IFRS 15 was issued by IASB on 28 May 2014, effective for annual periods beginning on or after 1 January 2018. IFRS 15 supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets.

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Group has assessed the impact of IFRS 15 on all its revenue arrangements. Based on the assessment, adoption of IFRS 15 is not expected to have any material effect on the Group's consolidated financial statements.

**IFRS 16 Leases**

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

**Transfers of Investment Property — Amendments to IAS 40**

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.

A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments.

An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. However, since Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements.

**Annual Improvements 2014-2016 Cycle (issued in December 2016)**
These improvements include:
- IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

## 3 FEES AND COMMISSION INCOME

| | 2017<br>KD '000 | 2016<br>KD '000 |
|---|---|---|
| Management fees on assets under management | **8,778** | 9,428 |
| Incentive fees on assets under management | **57** | 2 |
| Placement fees/redemption fees – managed funds | **249** | 173 |
| Investment banking and advisory fees | **428** | 1,314 |
| Brokerage fees | **791** | 630 |
| | **10,303** | 11,547 |

## 4 INTEREST AND SIMILAR INCOME

| | 2017<br>KD '000 | 2016<br>KD '000 |
|---|---|---|
| Interest on bank balances and deposits | **576** | 812 |
| Profit on murabaha receivables | **-** | 40 |
| Interest income – Margin trading | **505** | 420 |
| Interest on loans and advances | **229** | 249 |
| | **1,310** | 1,521 |

## 5 NET GAIN ON FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2017<br>KD '000 | 2016<br>KD '000 |
|---|---|---|
| Net gain (loss) (Level 1) | **318** | (598) |
| Net gain (Level 2 and Level 3) | **956** | 1,468 |
| Net realised and unrealised gain recognised in consolidated statement of income | **1,274** | 870 |

Global Investment House K.S.C.C. and its Subsidiaries

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

## 6 OTHER OPERATING INCOME

| | 2017 KD '000 | 2016 KD '000 |
|---|---|---|
| Dividend income | 754 | 848 |
| Rental income | 624 | 493 |
| Other income | 162 | 35 |
| | 1,540 | 1,376 |

## 7 IMPAIRMENT LOSSES

| | 2017 KD '000 | 2016 KD '000 |
|---|---|---|
| Impairment of other assets (Note 13) | 44 | 109 |
| Impairment of financial investments available for sale | 7 | 112 |
| Impairment of intangible assets | - | 286 |
| | 51 | 507 |

## 8 BANK BALANCES AND DEPOSITS

| | 2017 KD '000 | 2016 KD '000 |
|---|---|---|
| Bank balances and cash | 4,485 | 5,665 |
| Bank balances and cash arising on consolidation | 3,481 | 3,477 |
| Deposits with banks arising on consolidation | 5,459 | 6,086 |
| Deposits with banks | 18,458 | 37,773 |
| | 31,883 | 53,001 |
| Less: Deposits with banks with original maturity of more than three months | (2,942) | (28,065) |
| Cash and cash equivalents in the consolidated statement of cash flows | 28,941 | 24,936 |

## 9 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2017 KD '000 | 2016 KD '000 |
|---|---|---|
| Unquoted equity securities | 2,984 | 4,615 |
| Quoted equity securities | 4,087 | 4,176 |
| Managed funds and portfolios | 16,841 | 15,234 |
| | 23,912 | 24,025 |

## 10 LOANS AND ADVANCES

| | 2017<br>KD '000 | 2016<br>KD '000 |
|---|---|---|
| Gross amount | **8,273** | 8,409 |
| Less: Provision for credit losses | **(3,591)** | (4,260) |
| | **4,682** | 4,149 |

Loans are granted to GCC companies and individuals and are secured against investments in the funds and securities held in fiduciary portfolios by the Group on behalf of the borrowers.

The policy of the Group for calculating the provision for credit losses over loans and advances complies in all material respects with the general provision requirements of Central Bank of Kuwait. In this respect the Central Bank of Kuwait requires a general provision of at least 1% on all credit facilities not subject to specific provision. The Group records specific provision in accordance with Central Bank of Kuwait regulations and IFRS.

The movement in the provision for credit losses relating to loans and advances during the year is as follows:

| | 2017<br>KD '000 | 2016<br>KD '000 |
|---|---|---|
| At 1 January | **4,260** | 5,883 |
| Write offs | **-** | (331) |
| Write back of provision* | **(686)** | (1,292) |
| Additional provision | **17** | - |
| At 31 December | **3,591** | 4,260 |

*Write back of provision for credit losses for the year include KD 49 thousand (2016: KD 644 thousand) written back as a result of settlement agreement with borrowers.

## 11 FINANCIAL ASSETS AVAILABLE FOR SALE

| | 2017<br>KD '000 | 2016<br>KD '000 |
|---|---|---|
| Quoted equity securities | **297** | 260 |
| Managed funds and portfolios | **2,440** | 404 |
| Unquoted securities | **551** | 571 |
| | **3,288** | 1,235 |

Global Investment House K.S.C.C. and its Subsidiaries

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

## 12 PROPERTY AND EQUIPMENT

| | **Land** | **Building** | **Furniture & fixtures** | **Office equipment, computers & vehicles** | **Total** |
|---|---|---|---|---|---|
| | **KD'000** | **KD'000** | **KD'000** | **KD'000** | **KD'000** |
| **Cost:** | | | | | |
| As at 1 January 2017 | 3,214 | 14,772 | 4,632 | 3,242 | 25,860 |
| Additions | - | - | 26 | 18 | 44 |
| **As at 31 December 2017** | **3,214** | **14,772** | **4,658** | **3,260** | **25,904** |
| **Accumulated depreciation:** | | | | | |
| As at 1 January 2017 | - | (9,269) | (4,558) | (3,153) | (16,980) |
| Depreciation for the year | - | (884) | (12) | (43) | (939) |
| **As at 31 December 2017** | **-** | **(10,153)** | **(4,570)** | **(3,196)** | **(17,919)** |
| **Net book value:** | | | | | |
| **As at 31 December 2017** | **3,214** | **4,619** | **88** | **64** | **7,985** |

| | Land | Building | Furniture & fixtures | Office equipment, computers & vehicles | Total |
|---|---|---|---|---|---|
| | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 |
| Cost: | | | | | |
| As at 1 January 2016 | 3,214 | 14,760 | 4,643 | 3,216 | 25,833 |
| Additions | - | 12 | 21 | 26 | 59 |
| Disposal of subsidiary | - | - | (32) | - | (32) |
| As at 31 December 2016 | 3,214 | 14,772 | 4,632 | 3,242 | 25,860 |
| Accumulated depreciation: | | | | | |
| As at 1 January 2016 | - | (8,435) | (4,467) | (3,109) | (16,011) |
| Depreciation for the year | - | (834) | (105) | (44) | (983) |
| Disposal of subsidiary | - | - | 14 | - | 14 |
| As at 31 December 2016 | - | (9,269) | (4,558) | (3,153) | (16,980) |
| Net book value: | | | | | |
| As at 31 December 2016 | 3,214 | 5,503 | 74 | 89 | 8,880 |

## 13 OTHER ASSETS

| | **2017** | 2016 |
|---|---|---|
| | **KD'000** | KD'000 |
| Accrued income | **2,122** | 3,485 |
| Prepayments and other receivables | **9,049** | 10,146 |
| | **11,171** | 13,631 |
| Less: provision for impairment | **(3,139)** | (3,260) |
| | **8,032** | 10,371 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

Movement in the provision for impairment of other assets was as follows:

| | **2017** | 2016 |
|---|---|---|
| | **KD'000** | KD'000 |
| As at 1 January | **3,260** | 3,373 |
| Charge for the year | **44** | 109 |
| Disposal of subsidiary | **-** | (220) |
| Write off | **(165)** | (2) |
| As at 31 December | **3,139** | 3,260 |

## 14 SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

i. Share capital

| | Authorised | | Issued and fully paid | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **KD'000** | KD'000 | **KD'000** | KD'000 |
| Shares of KD 0.100 each | **57,017** | 79,923 | **57,017** | 79,923 |

The Annual General Assembly (AGM) of shareholders held on 22 June 2017 approved the consolidated financial statements for the year ended 31 December 2016.

The Extraordinary General Meeting (EGM) held on 22 June 2017 approved the board of directors proposal of reduction of share capital of the Parent Company by KD 22,907 thousand. This resulted in the reduction of authorized, issued and fully paid share capital of the Parent Company from KD 79,923 thousand to KD 57,017 thousand and the number of issued and fully paid up shares reduced from 799,233,980 to 570,168,980. The shareholders were entitled to KD 0.100 cash for each share cancelled. The amount of capital reduction has been paid subsequent to the approval.

The board of directors have proposed a cash dividend of 5 fils (2016: Nil) per share which is subject to the approval of the shareholders at the annual general meeting (AGM). Total cash dividend, if approved in AGM, is expected to be KD 2,851 thousand.

ii. Treasury shares

| | **2017** | 2016 |
|---|---|---|
| Number of shares ('000) | **13,254** | 13,272 |
| Percentage holding | **2.32%** | 1.66% |
| Cost of treasury shares (KD'000) | **8,796** | 8,796 |

The market value of the treasury shares were not determinable as the Parent Company shares are not listed (Note 1).

An amount equivalent to the cost of purchase of treasury shares have been earmarked as non-distributable from share premium throughout the holding period of treasury shares.

## 15 RESERVES

i. Statutory reserve

In accordance with the Companies Law and the Parent Company's Articles of Association, a minimum of 10% of the profit for the year attributable to the shareholders of the Parent Company (before tax and board of directors' remuneration) shall be transferred to the statutory reserve (based on the recommendation of the Parent Company's board of directors). The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital

Global Investment House K.S.C.C. and its Subsidiaries

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

ii. General reserve

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a maximum of 10% of the profit for the year attributable to the shareholders of the Parent Company (before tax and board of directors' remuneration) is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve.

## 16 OTHER LIABILITIES

| | 2017<br>KD'000 | 2016<br>KD'000 |
|---|---|---|
| Staff related accruals | **4,850** | 5,629 |
| Accounts payables | **3,497** | 3,224 |
| Others | **1,629** | 1,843 |
| | **9,976** | 10,696 |

## 17 Related party transactions and balances

In the normal course of business, the Group entered into various transactions with related parties (i.e. associates, shareholders, directors and executive officers of the Parent Company) concerning financing and other related services. Prices and terms of payment are approved by the Group's management. The terms of these transactions are substantially on the same commercial basis as approved by the Group's management, including collateral. Significant related party transactions and balances are as follows:

| | 2017<br>KD'000 | 2016<br>KD'000 |
|---|---|---|
| Consolidated statement of financial position | | |
| Other assets | **89** | 565 |
| Other liabilities – deferred income | **1,785** | 1,615 |
| | | |
| Transactions included in consolidated statement of income | | |
| Fee and commission income | **1,201** | 1,712 |
| Other operating expenses: | | |
| Independent directors fee | **25** | 56 |
| Board & board committees sitting fee, travel and other incidental expenses | **40** | 56 |
| Directors remuneration subject to AGM approval | **147** | - |
| Directors remuneration for 2016 approved by AGM held on 22 June 2017 | **131** | - |
| | | |
| Key management personnel compensation | | |
| Short-term employee benefits | **1,389** | 1,673 |
| Termination benefits | **67** | 89 |
| Other long-term employee benefits | **-** | 285 |
| | **1,456** | 2,047 |

The key management personnel compensation includes both fixed-pay (salary and fixed emoluments and benefits) and variable-pay (short-term incentives and long-term incentives) paid to all the senior executives of the Group. The remuneration policies are subject to an oversight by both the Remuneration Committee of the Board of Directors and the Board of Directors.

The members of the Board are paid sitting fees for attending the board of directors meetings and the various board committees' meetings and reimbursed for travel and other incidental expenses for attending such meetings in accordance with the Board of Directors approved policies. In accordance with a resolution of the shareholders in the annual general meeting, independent directors receive an annual fee of

KD 25 thousand for their services, and if the Chairman of the board performs the role of independent director, then the annual fee is KD 35 thousand. The directors are also paid an annual remuneration subject to the approval of shareholders and in accordance with the provisions of the Parent Company's Articles of Association and the Kuwait Companies Law.

Other assets receivable from the related parties do not bear any interest and are repayable on demand.

## 18 SEGMENTAL INFORMATION

For management purposes the continuing operations of Group is organised into four major business segments:

- Assets Management: Managing of GCC, MENA and international managed funds, discretionary and non-discretionary portfolio management, custody services and co-investments in the Group's Asset Management products.
- Investment Banking and Advisory: Private placement of equities and debt, advising and managing listings, initial public offerings (IPOs), arranging conventional and Islamic debt, buy and sell side advisory, advising on strategy, privatisation, mergers and reverse mergers and acquisitions and debt restructuring.
- Brokerage: Quoted and unquoted equity and debt instruments brokerage activities and margin financing.
- Group Treasury and Asset based Income: Managing the Parent Company's liquidity and foreign currency requirements, lending to corporate and individual customers and extremely limited and selective investing activities.

| | **Asset Management** | **Investment Banking and Advisory** | **Brokerage** | **Group Treasury and Asset based income** | **Total** |
|---|---|---|---|---|---|
| | **KD '000** | **KD '000** | **KD '000** | **KD '000** | **KD '000** |
| **2017** | | | | | |
| Revenue – fee based | **9,084** | **428** | **791** | **-** | **10,303** |
| Revenue – asset based | **1,110** | **-** | **505** | **2,225** | **3,840** |
| Total segment revenue | **10,194** | **428** | **1,296** | **2,225** | **14,143** |
| Segment result – fee based | **125** | **(488)** | **(440)** | **-** | **(803)** |
| Segment result – asset based | **1,110** | **-** | **167** | **2,051** | **3,328** |
| Total segment result | **1,235** | **(488)** | **(273)** | **2,051** | **2,525** |
| Impairment losses and provision (reversal) for credit losses | **27** | **-** | **16** | **(660)** | **(618)** |

| | Asset Management | Investment Banking and Advisory | Brokerage | Group Treasury and Asset based income | Total |
|---|---|---|---|---|---|
| | KD '000 | KD '000 | KD '000 | KD '000 | KD '000 |
| 2016 | | | | | |
| Revenue – fee based | 9,603 | 1,313 | 631 | - | 11,547 |
| Revenue – asset based | 1,125 | 25 | 420 | 1,613 | 3,183 |
| Total segment revenue | 10,728 | 1,338 | 1,051 | 1,613 | 14,730 |
| Segment result – fee based | 841 | 332 | (1,451) | - | (278) |
| Segment result – asset based | 1,125 | 25 | (171) | 2,599 | 3,578 |
| Total segment result | 1,966 | 357 | (1,622) | 2,599 | 3,300 |
| Impairment losses and provision (reversal) for credit losses | - | 53 | 293 | (1,253) | (908) |

Global Investment House K.S.C.C. and its Subsidiaries

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

| **2017** | **Asset Management KD '000** | **Investment Banking and Advisory KD '000** | **Brokerage KD '000** | **Group Treasury and Asset based income KD '000** | **Total KD '000** |
|---|---|---|---|---|---|
| Total segment assets | **22,495** | **258** | **17,492** | **41,075** | **81,320** |
| Total segment liabilities | **2,482** | **-** | **718** | **6,776** | **9,976** |

| 2016 | Asset Management KD '000 | Investment Banking and Advisory KD '000 | Brokerage KD '000 | Group Treasury and Asset based income KD '000 | Total KD '000 |
|---|---|---|---|---|---|
| Total segment assets | 21,449 | 783 | 17,086 | 63,337 | 102,655 |
| Total segment liabilities | 665 | - | 429 | 9,602 | 10,696 |

## Geographical information

### Revenue

| | **2017 KD'000** | 2016 KD'000 |
|---|---|---|
| Kuwait | **4,444** | 3,521 |
| Others | **9,699** | 11,209 |
| | **14,143** | 14,730 |

The revenue information above is based on the location where the revenue is generated. Further, the Group does not have any inter-segment transactions.

Information on geographical allocation of assets and liabilities is given in Note 21.3.

## 19 FIDUCIARY ACCOUNTS

The Group manages portfolios on behalf of others, mutual funds, and maintains cash balances and securities in fiduciary accounts, which are not reflected in the Group's consolidated statement of financial position.

The aggregate value of assets held in a fiduciary capacity by the Group at 31 December 2017 amounted to KD 910 million (2016: KD 988 million).

## 20 CONTINGENT LIABILITIES AND COMMITMENTS

The total outstanding contingent liabilities and commitments are as follows.

| | **2017 KD'000** | 2016 KD'000 |
|---|---|---|
| **Commitments** | | |
| Commitments to invest in private equity funds | **513** | 522 |
| Uncalled share capital | **89** | 96 |
| **Contingent liability** | | |
| Irrevocable and unconditional bank guarantee | **608** | 630 |

**Commitments to invest in private equity funds**
Commitments to invest in private equity funds represent the uncalled capital by the investment managers (general partners) of various private equity funds in which the Group has made investments. The capital can be called at the investment manager's discretion.

The Group is engaged in litigation cases, which involve claims made by and against the Group which have arisen in the ordinary course of business. The management of the Group, after reviewing the claims pending against the Parent Company and Group companies and based on the advice of the relevant professional legal advisors, are satisfied that the outcome of these claims will not have a material adverse effect on the consolidated financial statement of the Group.

## 21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The recognition and management of risk is an essential element of Group's risk strategy. The Board, being ultimately responsible for the management of risks associated with Group's activities, has established a framework of Board Committees, policies and controls to identify, assess, monitor and manage risk.

Risk strategies and policies are approved by the Board. The Head of Risk Management reports directly to the Chairman and has access to the Board of Directors.

Group's risk policies and processes aim to protect the asset values and income streams such that the interests of shareholders and external fund providers are protected and shareholders' return is optimised.

Group's key quantitative risk policies include:
- single obligor exposure restricted to specified percentages of shareholders' equity;
- maximum book-size limit for lending products linked to the shareholders' equity; and
- tenor limits for credit products.

The Board is responsible for the overall process and structure of corporate governance. The Board achieves compliance with corporate governance guidelines through its various committees (see further below). Management believes that the Group's corporate governance culture is in line with other leading international financial services companies.

The Board Committees have specific terms of reference, independent non-executive director membership, Senior Management participation and access to specialist advice when necessary. The Group currently has the following Board Committees:

**Risk Committee:**
The Board Risk Committee is to advise the Board of Directors on matters of risk management policies and practices. The Committee is responsible for defining the Parent Company's risk appetite as well as promoting a risk-based approach to the management and internal controls of the Parent Company.

**Audit Committee:**
The Board Audit Committee board is responsible for considering the consolidated financial statements for approval by the Board, overseeing the external and internal audit processes, focusing on compliance with legal requirements, accounting standards and listing requirements and implementing effective systems of internal control. The Board Audit Committee meets at least four times a year.

**Remuneration Committee:**
The Board Remuneration Committee provides recommendations with regard to the remuneration of the CEO, Board Members and reviews the remuneration of other executive managers.

The most significant financial risks to which the Group is exposed are described below.

### 21.1 Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: foreign currency risk, interest rate risk and equity price risk.

#### a) Foreign currency risk
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of change in foreign exchange rates. The Group mainly operates in the GCC and other Middle Eastern and North African countries and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar, British Pound, Jordanian Dinars, Bahraini Dinars, Qatari Riyals, UAE Dirham, Saudi Riyal and Omani Riyal. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Global Investment House K.S.C.C. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

To mitigate the Group's exposure to foreign currency risk, non-functional currency cash flows are monitored. Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows. Where the amounts to be paid and received in specific currency are expected to largely offset one another, no further hedging activity is undertaken.

The Group had the following significant exposures denominated in foreign currencies including assets and liabilities, translated into Kuwaiti Dinar at the closing rate:

| | **2017** | 2016 |
|---|---|---|
| | **KD '000** | KD '000 |
| US Dollar | **31,306** | 27,339 |
| British Pound | **3,645** | 2,564 |
| Jordanian Dinar | **9,912** | 10,736 |
| Bahraini Dinar | **4,344** | 3,952 |
| Qatari Riyals | **66** | 9,336 |
| UAE Dirhams | **332** | 361 |
| Saudi Riyal | **4,251** | 4,313 |
| Omani Riyal | **1,822** | 1,888 |

The foreign currency sensitivity is determined on the following assumptions:

| | **2017** | 2016 |
|---|---|---|
| US Dollar | **1.6%** | 0.8% |
| British Pound | **7.8%** | 16.6% |
| Jordanian Dinar | **1.8%** | 0.7% |
| Bahraini Dinar | **1.3%** | 0.6% |
| Qatari Riyals | **1.5%** | 0.9% |
| UAE Dirhams | **1.5%** | 0.8% |
| Saudi Riyal | **1.4%** | 0.8% |
| Omani Riyal | **1.4%** | 0.8% |

The above percentages have been determined based on the average market movement in exchange rates in the previous twelve months.

If the Kuwaiti Dinar had strengthened against the foreign currencies assuming the above sensitivity, then this would have the following impact on the consolidated statement of income and equity:

| | **Effect on results for the year** | | **Other components of equity** | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **KD'000** | KD'000 | **KD'000** | KD'000 |
| US Dollar | **(488)** | (229) | **-** | - |
| British Pound | **(286)** | (427) | **-** | - |
| Jordanian Dinar | **-** | (5) | **(175)** | (72) |
| Bahraini Dinar | **-** | - | **(55)** | (25) |
| Qatari Riyals | **(1)** | (80) | **-** | - |
| UAE Dirhams | **(5)** | (3) | **-** | - |
| Saudi Riyal | **(1)** | (2) | **(57)** | (35) |
| Omani Riyal | **-** | - | **(26)** | (16) |

Sensitivity to currency rate movements will be on a symmetric basis as financial instruments giving rise to non-symmetrical movements are not significant. There has been no change during the year in the methods and assumptions used in preparing the above sensitivity analysis. Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions.

### b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value. The Group is exposed to interest rate risk on its bank balance, deposits and loans and advances.

The following table illustrates the sensitivity of the profit for the year and equity to a reasonably possible change in interest rates of 100 bps (1%) with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market condition. The calculations are based on the Group's financial instruments held at each reporting date. All other variables are held constant. There has been no change during the year in the methods and assumptions used in preparing the below sensitivity analysis.

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in interest rate** | **Effect on results for the year KD'000** | Increase/ (decrease) in interest rate | Effect on results for the year KD'000 |
| KD | **± 1%** | **±51** | ± 1% | ±212 |
| USD | **± 1%** | **±235** | ± 1% | ±139 |
| QAR | **± 1%** | **-** | ± 1% | ±90 |

### c) Equity price risk

The Group is exposed to equity price risk with respect to its equity investments. Equity investments are classified either as financial assets designated at fair value through profit or loss or financial assets available for sale.

To manage its equity price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The equity price risk sensitivity is determined on the following assumptions:

| | **2017** | 2016 |
|---|---|---|
| | **%** | % |
| Kuwait market | **13%** | 0.2% |
| Rest of GCC market | **0.8%** | 7% |
| MENA market | **34%** | 2% |
| Other international markets | **2%** | 9% |

The above percentages have been determined based on the average market movements over the year. The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. The analysis reflects the impact to equity prices in accordance with the above-mentioned equity price risk sensitivity assumptions. There has been no change during the year in the methods and assumptions used in the preparation of the sensitivity analysis.

The effect on consolidated statement of income and equity as a result of change in the fair value of quoted equity instruments at the reporting date due to a reasonable possible change in the equity indices, with all other variables held as constant, is as follows:

Global Investment House K.S.C.C. and its Subsidiaries

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

| | Effect on results for the year | | Effect on other comprehensive income for the year | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **KD'000** | KD'000 | **KD'000** | KD'000 |
| Financial assets designated at fair value through profit or loss | **±1,077** | ±381 | **-** | - |
| Financial assets available for sale | **-** | - | **±99** | ±1 |

## 21.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group credit policy and exposure to credit risk is monitored on an ongoing basis. The Group seeks to avoid concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities. It also obtains security when appropriate.

The Group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the reporting date, as summarized below:

| | **2017** | 2016 |
|---|---|---|
| | **KD'000** | KD'000 |
| Bank balances | **31,883** | 53,001 |
| Loans and advances | **4,682** | 4,149 |
| Other assets | **8,032** | 10,371 |
| | **44,597** | 67,521 |

The figures above show the maximum exposure to credit risk before the effect of mitigation through the use of master netting and collateral agreements, if any.

Information on other significant concentrations of credit risk is set out in note 21.3.

### 21.2.1 Credit risk from lending activities

The Group selectively provides credit facilities in form of short-term (maturity up to 12 months) loans and advances on a fully collateralized basis to its customers of the asset management and investment banking products. The credit sanction process typically involves customers' credit appraisal in accordance with the Group's credit policies.

The Group's credit risk management associated with the lending activities is governed by the Group's credit policies. The Group's credit policies cover the customer eligibility criteria for credit, large exposure and concentration limits, eligible collateral, collateral valuation methodology, minimum collateralisation requirement, credit quality monitoring processes and escalation and foreclosure processes in the event of default.

In accordance with the Group's credit policies all loans and advances with past due interest or principal obligations are considered as non-performing and are subject to specific provisions for credit losses on basis of amount of impairment determined.

### 21.2.2 Credit quality per financial asset category

In accordance with the Group's credit risk management policies all performing credits are graded as: high or medium grade. Credit exposures are classified as 'high grade' when the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be extremely remote to low. Credit exposures are classified as 'medium grade' when the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be moderate. Whereas, the performing credit exposures when the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be high are classified as "low grade". The Group does not have any low grade financial asset at the reporting date. Non-performing credit exposures are graded as past due or impaired.

The table below shows the credit quality of gross maximum exposure before provision for credit losses by class of asset for related consolidated statement of financial position lines, based on the Group's credit rating system.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

| 2017 | Neither past due nor impaired High grade KD'000 | Neither past due nor impaired Medium grade KD'000 | Past due but not impaired KD'000 | Impaired KD'000 | Total KD'000 |
|---|---|---|---|---|---|
| Bank balances and deposits | **31,883** | **-** | **-** | **-** | **31,883** |
| Loans and advances | **-** | **4,581** | **101** | **3,591** | **8,273** |
| Other assets | **1,447** | **6,585** | **-** | **3,139** | **11,171** |
| | **33,330** | **11,166** | **101** | **6,730** | **51,327** |

| 2016 | Neither past due nor impaired High Grade KD'000 | Neither past due nor impaired Medium grade KD'000 | Past due but not impaired KD'000 | Impaired KD'000 | Total KD'000 |
|---|---|---|---|---|---|
| Bank balances and deposits | 53,001 | - | - | - | 53,001 |
| Loans and advances | - | 3,727 | 422 | 4,260 | 8,409 |
| Other assets | 3,108 | 7,263 | - | 3,260 | 13,631 |
| | 56,109 | 10,990 | 422 | 7,520 | 75,041 |

As at 31 December, the ageing of neither past due nor impaired and past due but not impaired financial assets was as follows:

| | Neither past due nor impaired KD'000 | Past due but not impaired < 30 days KD'000 | 31 – 60 days KD'000 | 61 – 90 days KD'000 | 91 – 180 days KD'000 | >180 days KD'000 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Bank balances and deposits | **31,883** | **-** | **-** | **-** | **-** | **-** |
| Loans and advances | **4,581** | **2** | **8** | | | **91** |
| Other assets | **8,032** | **-** | **-** | **-** | **-** | **-** |

| | Neither past due nor impaired KD'000 | Past due but not impaired < 30 days KD'000 | 31 – 60 days KD'000 | 61 – 90 days KD'000 | 91 – 180 days KD'000 | >180 days KD'000 |
|---|---|---|---|---|---|---|
| 2016 | | | | | | |
| Bank balances and deposits | 53,001 | - | - | - | - | - |
| Loans and advances | 3,727 | - | 77 | - | - | 345 |
| Other assets | 10,371 | - | - | - | - | - |

The fair value of total collateral against the loans and advances are amounting to KD 21.3 million (2016: KD 12.4 million). The collateral typically includes listed and unlisted equity securities and units in managed funds.

### 21.3 Concentration of assets

The distribution of assets by geographic region and industry sector was as follows:

Global Investment House K.S.C.C. and its Subsidiaries

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

| | Kuwait | GCC | Asia & Africa | Europe | Americas | Total |
|---|---|---|---|---|---|---|
| | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 |
| **2017** | | | | | | |
| Geographic region: | 39,297 | 15,651 | 15,959 | 7,276 | 3,137 | 81,320 |
| Industry sector: | | | | | | |
| Banks and financial institutions | 35,898 | 12,656 | 7,691 | 3,697 | 2,973 | 62,915 |
| Real estate | 242 | - | 1,412 | 1,149 | - | 2,803 |
| Others | 3,157 | 2,995 | 6,856 | 2,430 | 164 | 15,602 |
| | 39,297 | 15,651 | 15,959 | 7,276 | 3,137 | 81,320 |

| | Kuwait | GCC | Asia & Africa | Europe | Americas | Total |
|---|---|---|---|---|---|---|
| | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 |
| 2016 | | | | | | |
| Geographic region: | 53,708 | 24,139 | 14,560 | 6,824 | 3,424 | 102,655 |
| Industry sector: | | | | | | |
| Banks and financial institutions | 47,272 | 21,690 | 6,151 | 3,945 | 3,030 | 82,088 |
| Real estate | 272 | 57 | 862 | 61 | - | 1,252 |
| Others | 6,164 | 2,392 | 7,547 | 2,818 | 394 | 19,315 |
| | 53,708 | 24,139 | 14,560 | 6,824 | 3,424 | 102,655 |

### 21.4 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due.

The table below summarises the maturity profile of the Group's assets and liabilities. Maturity of bank balances and deposits and loans and advances have been determined on the basis of the remaining period from the reporting date to the contractual maturity date. The maturity profile for financial assets designated at fair value through profit or loss, financial assets available for sale, investments in associates, investment properties, property and equipment and other assets is determined based on management's estimate of liquidation of those investments. The actual maturities may differ from the maturities shown below since borrowers may have the right to prepay obligations with or without prepayment penalties.

| **2017** | Up to 1 month KD'000 | 1-3 months KD'000 | 3-12 months KD'000 | Over 1 year KD'000 | Total KD'000 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Bank balances and deposits | 20,446 | 9,494 | 1,943 | - | 31,883 |
| Financial assets designated at fair value through profit or loss | - | - | - | 23,912 | 23,912 |
| Loans and advances | 246 | 64 | 4,372 | | 4,682 |
| Financial assets available for sale | - | - | - | 3,288 | 3,288 |
| Investments in associates | - | - | - | 134 | 134 |
| Investment properties | - | - | - | 1,404 | 1,404 |
| Property and equipment | - | - | - | 7,985 | 7,985 |
| Other assets | - | - | 8,032 | - | 8,032 |
| | 20,692 | 9,558 | 14,347 | 36,723 | 81,320 |
| Liabilities | | | | | |
| Other liabilities | - | - | 7,036 | 2,940 | 9,976 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

| 2016 | Up to 1 month KD'000 | 1-3 months KD'000 | 3-12 months KD'000 | Over 1 year KD'000 | Total KD'000 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Bank balances and deposits | 20,404 | 17,208 | 15,389 | - | 53,001 |
| Financial assets designated at fair value through profit or loss | - | - | - | 24,025 | 24,025 |
| Loans and advances | 421 | 426 | 3,302 | - | 4,149 |
| Financial assets available for sale | - | - | - | 1,235 | 1,235 |
| Investments in associates | - | - | - | 141 | 141 |
| Investment properties | - | - | - | 853 | 853 |
| Property and equipment | - | - | - | 8,880 | 8,880 |
| Other assets | - | - | 10,371 | - | 10,371 |
| | 20,825 | 17,634 | 29,062 | 35,134 | 102,655 |
| Liabilities | | | | | |
| Other liabilities | - | - | 7,561 | 3,135 | 10,696 |

As there are no interest bearing liabilities, the Group's maturity profile of financial liabilities based on contractual undiscounted repayment obligations are same as disclosed in the table.

## 22 CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce liabilities.

The capital structure of the Group comprises total equity and is measured at KD 71,344 thousands (31 December 2016: KD 91,959 thousands). The board of directors, after having assessed the Parent Company's capital requirements, had concluded in early 2017 that the Parent Company's capital is in excess of its needs. Therefore, the BoD proposed to reduce the Share Capital of the Parent Company by KD 22,907 thousand subject to regulatory and shareholders' approvals, which was approved in the EGM 22 June 2017. (Note 14).

The Group monitors capital on the basis of the regulatory requirements of Companies Law No.1 of 2016 and CMA minimum capital requirements for investment companies.

## 23 FAIR VALUE MEASUREMENT

i. Financial instruments

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of bank balances and deposits, financial assets designated at fair value through profit or loss, murabaha receivables, loans and advances and other assets. Financial liabilities consist of other liabilities.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

**Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities.
**Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
**Level 3:** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Global Investment House K.S.C.C. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

| **2017** | **Level 1 KD '000** | **Level 2 KD '000** | **Level 3 KD '000** | **Total KD '000** |
|---|---|---|---|---|
| Financial assets designated at fair value through profit or loss : | | | | |
| Unquoted equity securities | **-** | **-** | **2,984** | **2,984** |
| Quoted equity securities | **4,087** | **-** | **-** | **4,087** |
| Managed funds and portfolios | **-** | **9,852** | **6,989** | **16,841** |
| Financial assets available for sale : | | | | |
| Unquoted securities | **-** | **-** | **551** | **551** |
| Quoted equity securities | **297** | **-** | **-** | **297** |
| Managed funds and portfolios | **-** | **2,440** | **-** | **2,440** |

| 2016 | Level 1 KD '000 | Level 2 KD '000 | Level 3 KD '000 | Total KD '000 |
|---|---|---|---|---|
| Financial assets designated at fair value through profit or loss : | | | | |
| Unquoted equity securities | - | - | 4,615 | 4,615 |
| Quoted equity securities | 4,176 | - | - | 4,176 |
| Managed funds and portfolios | - | 9,156 | 6,078 | 15,234 |
| Financial assets available for sale : | | | | |
| Unquoted equity securities | - | - | 571 | 571 |
| Quoted equity securities | 260 | - | - | 260 |
| Managed funds and portfolios | - | 404 | - | 404 |

During the year ended 31 December 2017, there were no transfers between level 1 and level 2 fair value measurement.

ii. Non-Financial assets

Non-financial asset carried at fair value comprise of investment properties. These are classified under level 3 fair value hierarchy.

The following table shows a reconciliation of the opening and closing amounts of level 3 financial and non-financial assets which are recorded at fair value.

| | **As at 1 January 2017 KD 000's** | **Gain recorded in the consolidated statement of income KD 000's** | **Net purchases, (sales and settlements) KD 000's** | **Transfer from level 2 KD 000's** | **Loss recorded in other comprehensive income KD 000's** | **As at 31 December 2017 KD 000's** |
|---|---|---|---|---|---|---|
| Financial assets designated at fair value through profit or loss: | | | | | | |
| Unquoted equity securities | **4,615** | **178** | **(1,809)** | **-** | **-** | **2,984** |
| Managed Funds and portfolio | **6,078** | **(131)** | **894** | **148** | **-** | **6,989** |
| Financial assets available for sale | | | | | | |
| Unquoted securities | **571** | **-** | **(20)** | **-** | **-** | **551** |
| Non-financial assets | | | | | | |
| Investment properties | **853** | **-** | **574** | **-** | **(23)** | **1,404** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

| | As at 1 January 2016 KD 000's | Gain (loss) recorded in the consolidated statement of income KD 000's | Net purchases KD 000's | Gain recorded in other comprehensive income KD 000's | As at 31 December 2016 KD 000's |
|---|---|---|---|---|---|
| Financial assets designated at fair value through profit or loss: | | | | | |
| Unquoted equity securities | 3,482 | 735 | 398 | - | 4,615 |
| Managed Funds and portfolio | 5,611 | 621 | (154) | - | 6,078 |
| Financial assets available for sale | | | | | |
| Unquoted equity securities | 994 | - | (423) | - | 571 |
| Non-financial assets | | | | | |
| Investment properties | 847 | - | - | 6 | 853 |

The Group recorded net gain of KD 47 thousand (2016: KD 1,356 thousand) in the consolidated statement of income with respect to assets classified under level 3.

**Description of significant unobservable inputs to valuation of financial assets:**
Unquoted equity securities are valued based on book value and price to book multiple method, multiples using latest financial statements available of the investee entities and adjusted for lack of marketability discount in the range of 25% to 50%. The Group has determined that market participants would take into account these discounts when pricing the investments. Funds and managed portfolio have been valued based on Net Asset Value (NAV) of the fund provided by the custodian of the fund or portfolio and certain managed funds were adjusted for lack of marketability discount by 15% to 20%.

A change in assumptions used for valuing the Level 3 financial instruments, by possible using an alternative ±5% higher or lower liquidity and market discount could have resulted in increase or decrease in the results by KD 498 thousand (2016: KD 535 thousand) and increase or decrease in other comprehensive income by KD 28 thousand (2016: KD 29 thousand).

**Description of significant unobservable inputs to valuation of non-financial assets:**
Investment properties are stated at fair values which have been determined based on valuations performed by accredited independent valuers. Fair value of investment properties were determined using Mark to Market method, conducted by valuators considering transaction prices of the property and similar properties. The significant unobservable valuation input used for the purpose of valuation is the market price per square foot / meter and varies from property to property. A reasonable change in this input would result in an equivalent amount of change in fair value.

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.