Watheeqa Capital Company K.S.C. (Closed)
and subsidiaries
State of Kuwait

Consolidated financial statements and independent auditor's report for the year ended 31 December 2012

Watheeqa Capital Company K.S.C. (Closed)
and subsidiaries
State of Kuwait

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Independent Auditor's Report

The Shareholders
Watheeqa Capital Company K.S.C. (Closed)
State of Kuwait

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Watheeqa Capital Company K.S.C. (Closed) ("the Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Companies Law No. 25 of 2012 as amended, and the Company's articles and memorandum of association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the board of directors' report agrees with the books of account. We have not become aware of any contravention, during the year ended 31 December 2012, of the Companies Law No. 25 of 2012 as amended, or of the Company's articles and memorandum of association that might have had a material effect on the Group's activities or on its consolidated financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations during the year ended 31 December 2012.

Safi A. Al Mutawa
License No 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Kuwait: 16 May 2013

Watheeqa Capital Company K.S.C. (Closed)
and subsidiaries
State of Kuwait

Consolidated statement of financial position
as at 31 December 2012

	Note	2012 KD	2011 KD
Assets			
Cash and bank balances	*4*	557,388	1,507,692
Murabaha and wakala investments	*5*	2,023,792	1,955,162
Accounts and other receivables	*6*	2,560,622	696,646
Due from related parties	*7*	98,123	17,691
Investment at fair value through profit or loss		619	78,427
Long term receivables		-	109,940
Available-for-sale investments	*8*	9,749,115	8,401,342
Investment in equity accounted investee	*10*	5,651,565	6,257,741
Property and equipment	*11*	6,628	245,546
Total assets		20,647,852	19,270,187
Liabilities			
Accounts and other payables	*12*	212,677	824,052
Provision for tax		-	232,055
Provision for employees' end of service indemnity		128,127	129,617
Total liabilities		340,804	1,185,724
Equity	*13*		
Share capital		15,000,000	15,000,000
Statutory reserve		673,531	584,504
Voluntary reserve		673,531	584,504
Translation reserve		-	(188,856)
Fair value reserve		1,213,661	(260,085)
Retained earnings		2,746,325	2,053,159
Equity attributable to shareholders of the Company		20,307,048	17,773,226
Non-controlling interest		-	311,237
Total equity		20,307,048	18,084,463
Total equity and liabilities		20,647,852	19,270,187

The accompanying notes form an integral part of these consolidated financial statements.

Dr. Yaqoub Yousif Al Shati
Chairman

Watheeqa Capital Company K.S.C. (Closed)
and subsidiaries
State of Kuwait

Consolidated statement of income
for the year ended 31 December 2012

	Note	2012 KD	2011 KD
Income			
Portfolio management fee		426,503	415,739
Brokerage revenue		281,197	261,960
Finance revenue		71,462	82,144
Investment income/ (loss)	*14*	2,092,824	(87,769)
Share of results from equity accounted investee	*10*	(730,012)	12,541
Total income		2,141,974	684,615
Expenses			
Finance charges		2,320	2,393
Impairment loss on subsidiary	*11*	-	685,287
General and administrative expenses	*15*	1,333,816	1,523,161
Total expenses		1,336,136	2,210,841
Operating income/ (loss)		805,838	(1,526,226)
Other income		51,035	137,364
Profit/(loss) for the year before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS") and Zakat		856,873	(1,388,862)
KFAS		(8,012)	-
Zakat		(11,037)	-
Profit/ (loss) for the year		837,824	(1,388,862)
Profit / (loss) attributable to:			
Shareholders of the Company		871,220	(1,179,259)
Non-controlling interest		(33,396)	(209,603)
		837,824	(1,388,862)

The accompanying notes form an integral part of these consolidated financial statements.

Watheeqa Capital Company K.S.C. (Closed)
and subsidiaries
State of Kuwait

Consolidated statement of comprehensive income
for the year ended 31 December 2012

	2012 KD	2011 KD
Profit / (loss) for the year	837,824	(1,388,862)
Other comprehensive income/ (loss):		
Changes in fair value reserve	1,473,746	9,951
Changes in translation reserve	187,989	(96,413)
Total other comprehensive income / (loss) for the year	1,661,735	(86,462)
Total comprehensive income / (loss) for the year	2,499,559	(1,475,324)
Attributable to:		
Shareholders of the Company	2,533,822	(1,219,333)
Non-controlling interests	(34,263)	(255,991)
Total comprehensive income / (loss)	2,499,559	(1,475,324)

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2012

	Attributable to shareholders of the Company								
	Share capital KD	**Statutory reserve KD**	**Voluntary reserve KD**	**Translation reserve KD**	**Fair value reserve KD**	**Retained earnings KD**	**Total KD**	**Non-controlling interest KD**	**Total equity KD**
Balance at 1 January 2011	15,000,000	584,504	584,504	(138,831)	(270,036)	3,232,418	18,992,559	567,228	19,559,787
Total comprehensive income for the year									
Loss for the year	-	-	-	-	-	(1,179,259)	(1,179,259)	(209,603)	(1,388,862)
Other compressive income:									
Changes in fair value	-	-	-	-	9,951	-	9,951	-	9,951
Changes in translation reserve	-	-	-	(50,025)	-	-	(50,025)	(46,388)	(96,413)
Total other comprehensive loss for the year	-	-	-	(50,025)	9,951	-	(40,074)	(46,388)	(86,462)
Total comprehensive income for the year	-	-	-	(50,025)	9,951	(1,179,259)	(1,219,333)	(255,991)	(1,475,324)
Balance at 31 December 2011	15,000,000	584,504	584,504	(188,856)	(260,085)	2,053,159	17,773,226	311,237	18,084,463
Balance at 1 January 2012	15,000,000	584,504	584,504	(188,856)	(260,085)	2,053,159	17,773,226	311,237	18,084,463
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	871,220	871,220	(33,396)	837,824
Other compressive income:									
Changes in fair value	-	-	-	-	1,473,746	-	1,473,746	-	1,473,746
Changes in translation reserve	-	-	-	188,856	-	-	188,856	(867)	187,989
Total other comprehensive income for the year	-	-	-	188,856	1,473,746	-	1,662,602	(867)	1,661,735
Total comprehensive income for the year	-	-	-	188,856	1,473,746	871,220	2,533,822	(34,263)	2,499,559
Transfer to reserves (note 13)	-	89,027	89,027	-	-	(178,054)	-		-
Disposal of a subsidiary (note 9)	-	-	-	-	-	-	-	(276,974)	(276,974)
Balance at 31 December 2012	15,000,000	673,531	673,531	-	1,213,661	2,746,325	20,307,048	-	20,307,048

The accompanying notes form an integral part of these consolidated financial statements.

Watheeqa Capital Company K.S.C. (Closed)
and subsidiaries
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Consolidated statement of cash flows
for the year ended 31 December 2012

	Note	2012 KD	2011 KD
Cash flows from operating activities			
Profit/(loss) for the year before KFAS and Zakat		856,873	(1,388,862)
Adjustments for:			
Depreciation	*11*	73,576	113,227
Change in translation reserve		-	(49,432)
General and limited provision	*16*	223,297	(4,053)
Impairment loss on subsidiary		-	685,287
Provisions for doubtful debts		-	6,980
Provisions no longer required		(173,650)	(99,359)
Gain on disposal of a subsidiary	*14*	(1,517,896)	-
Gain on sale of property and equipment		(3,560)	207,301
Investment in equity accounted investee	*10*	730,012	(12,541)
Provision for employees' end of service indemnity		-	61,782
		188,652	(479,670)
Changes in:			
- Other receivables		(618,705)	122,203
- Due from related parties		(80,431)	302,810
- Long term receivables		-	(36,566)
- Accounts and other payables		344,007	(786,151)
- Due to related parties		-	(27,005)
- Provision for tax		-	(41,965)
End of service indemnity paid		(1,491)	(1,000)
Net cash generated from/ (used in) operating activities		(167,968)	(947,344)
Cash flows from investing activities			
Purchase of property and equipment	*11*	(2,570)	(276,071)
Net changes in murabaha and wakala investments		(118,277)	496,318
Net changes in investments at fair value through profit or loss		77,808	(78,427)
Acquisition of investment in equity accounted investee		-	(18,739)
Proceed from disposal of property and equipment		6,863	-
Proceed from disposal of subsidiary- Net of cash		(746,160)	-
Net cash (used in)/ generated from investing activities		(782,336)	123,081
Net decrease in cash and bank balances		(950,304)	(824,263)
Cash and bank balances at 1 January		1,507,692	2,331,955
Cash and bank balances at 31 December	*4*	557,388	1,507,692

Accompanying notes form an integral part of these consolidated financial statements.

1. Reporting entity

Watheeqa Capital Company K.S.C. (Closed) (the "Company") is a Kuwaiti Shareholding Company incorporated on 30 June 2008. The Company is registered as an investment company with the Central Bank of Kuwait ("CBK") on 15 September 2008. The Company is a subsidiary of Watheeqa Holding Group K.S.C. (Closed) ("the Parent Company"). The Company commenced its operations on 30 June 2008.

The registered office of the Company is located at Chamber of Commerce building, P.O. Box 28009, Safat 13141, Kuwait.

These consolidated financial statements of the Company for the year ended 31 December 2012 comprise the Company and following subsidiaries (together referred to as "the Group" and individually "Group entity") and the Group's interest in an equity accounted investee:

	Country of incorporation	Percentage of ownership 2012	Percentage of ownership 2011	Principal activities
Subsidiaries:				
Watheeqa United Real Estate Company W.L.L	Kuwait	99%	-	Real estate
Watheeqa Securities Brokerage Company S.A.E	Egypt	-	75%	Brokerage
Equity accounted invetee:				
Al Mudon International Real Estate Company K.S.C.(Closed)	Kuwait	25.05%	25.05%	Real estate

The Group is primarily engaged in real estate, industrial investment, portfolio management, providing consultancy services, acting as placement agent, asset management, funds, securities brokerage and developing finance companies in various Islamic forms.

On 19 December 2012, the Company disposed off its investment in Watheeqa Securities Brokerage Company S.A.E. Accordingly, consolidated statement of income for the year ended 31 December 2012 includes the results of this entity for the period from 1 January 2012 to 19 December 2012 (Note 9).

During the year, Watheeqa United Real Estate Company K.S.C. was incorporated by the Company as 100% owned separate legal entity. Share capital of this entity amounting to KD 39,600 was contributed by the Parent Company.

2. Basis of preparation

a) <u>Statement of compliance</u>

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted for use by the State of Kuwait for financial institutions regulated by the CBK. These regulations require adoption of all IFRSs except for the IAS 39 requirement for collective impairment provision, which has been replaced by the CBK requirement for a minimum general provision (see Note 3(i)).

In addition, the Company complies with the requirements of the Kuwait Companies Law No. 25 of 2012, as amended, Ministerial order No. 18 of 1990 and the Company's articles and memorandum of association.

On 29 November through a decree, Companies Law No. 25 of 2012 ("the Law") was issued and later amended by Law No. 97 of 2013 dated 27 March 2013 ("the Decree"). The Law came into effect from the date it was published in Kuwait's Official Gazette. According to article 2 and 3 of the Decree, Executive Regulations which shall be issued by the Minister of Commerce and Industry within six months of the date of publication of decree in Kuwait's Official Gazette will determine the basis and rules which the Company shall adopt to regularise its affairs with the provisions of the amended Law. The Company's management is of the view that application of the provisions of the Law may not have material impact on the Company's activities or on its consolidated financial position.

The consolidated financial statements were authorized for issue by the Board of Directors on 16 May 2013 and are subject to approval of shareholders at the next annual general assembly meeting.

b) Basis of measurement

The consolidated financial statements are prepared on historical and amortised cost basis except for certain investments which are measured at fair value.

c) Functional and presentation currency

These consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the functional currency of the Company.

d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is set out in note 3(i) – impairment.

e) Standards and interpretations not yet effective

Following standards and interpretations have been issued but are not yet effective and have not yet been adopted by the Group:

IFRS 9 Financial Instruments

The standard, which will be effective for annual periods beginning on or after January 1, 2015, specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified entirely based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They apply a consistent approach to classifying financial assets and replace the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the numerous impairment methods in IAS 39 that arise from the different classification categories

IFRS 10 Consolidated Financial Statements (issued in May 2011)

The new Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. It introduces a single consolidation model that identifies control as the basis for consolidation for all types of entities, where control is based on whether an investor has power over the investee, exposure/rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns. This standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities (issued in May 2011)

The new Standard combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. IFRS 12 is effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement (issued in May 2011)

The new Standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after 1 January 2013.

The management of the Group anticipates that the adoption of these standards and interpretations once they become effective in future periods will have no significant financial impact on the consolidated financial statements of the Group in the period of initial application except for the adoption of IFRS 9 and IFRS 12.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group.

a) Basis of consolidation

i. Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes in to consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquire; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in consolidated statement of income.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognized in consolidated statement of income.

Costs related to the recognized, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

ii. Subsidiaries

Subsidiaries are entities controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses.

iii. Non-controlling interests

The Group elects to measure any non-controlling interest in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interest are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognized in consolidated statement of income.

iv. Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interest and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in consolidated statement of income.

If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

v. Investment in associate

Associate is the entity in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investment in associate is accounted for using the equity method and is recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income from the date that significant influence commences until the date that significant influence ceases. The accounting policies of the associate align with the accounting policies of the Group.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

vi. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b) Foreign currency

i. Foreign currency transactions:

Transactions in foreign currencies are translated to KD at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the KD at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the KD at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in consolidated statement of comprehensive income, except for differences arising on the retranslation of available-for-sale investments, which are recognised in consolidated statement of comprehensive income.

ii. Foreign operations:

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to KD at exchange rates at the reporting date. The income and expenses of foreign operations are translated to KD at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in consolidated statement of comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to consolidated statement of income as part of the gain or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

c) <u>Financial instruments</u>

i. Non-derivative financial assets

All financial assets are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group classifies non-derivative financial assets into financial assets at fair value through profit or loss, available-for-sale investments and loans and receivables.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognized in consolidated statement of income as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes in to account any dividend income, are recognized in consolidated statement of income.

Financial assets designated as at fair value through profit or loss comprise equity securities that otherwise would have been classified as available for sale.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective yield method, less any impairment losses (see note 3 (i)).

Loans and receivables comprise cash and bank balances, accounts and other receivables and murabaha and wakala investments.

Cash and bank balances

Cash and bank balances comprise cash in hand and bank balances with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Group in the management of its short-term commitments

Murabaha and wakala investments

Murabaha and wakala investments represent the amount receivable on a deferred settlement basis for assets sold under respective agreements.

Murabaha and wakala receivables are recognized initially at cost and are subsequently carried at amortised cost using the effective yield method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(i)), are recognized in consolidated statement of comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to consolidated statement of income.

Available-for-sale financial assets comprise equity securities.

ii. Non-derivative financial liabilities

All financial liabilities are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs.

Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise accounts and other payables and due to related parties. Accounts and other payables are stated at amortised cost.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

d) Property and equipment

i. Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses (note 3(i)).

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in consolidated statement of income.

ii. Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

iii. Depreciation

Items of property and equipment are depreciated from the date they are available for use over the useful lives of each component, on a straight-line basis in consolidated statement of income.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

	Years
Buildings	20
Improvements on leased buildings	2-10
Furniture and office equipments	3-10
Tools	8
Computers	3-5
Vehicles	4

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

e) Provision for employees' end of service indemnity

Kuwaiti employees

Pensions and other social benefits for Kuwaiti employees are covered by the Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme, is charged to consolidated statement of income in the year to which they relate.

Expatriate employees

Expatriate employees are entitled to an end of service indemnity payable under the Kuwait Labor Law and the Company's by-laws based on the employees' accumulated periods of service and latest entitlements of salaries and allowances. Provision for this unfunded commitment, which represents a defined benefit plan, has been made by calculating the notional liability had all employees left at the reporting date.

f) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

g) Revenue recognition

- Revenue from portfolio management services rendered and commission earned is recognized when services are provided. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due or associated costs.

- Income from murabaha and wakala investments are recognized on an effective yield basis so as to yield a constant rate of return on the net investment outstanding.
- Revenue from consultancy services rendered is recognized in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to work performed.
- Dividend income is recognized when the right to receive payment is established
- Brokerage revenue and other income are recognized as it accrues.
- Net gain from financial instruments at fair value through profit or loss includes all realised and unrealised fair value changes and foreign exchange differences.

h) Tax

Tax expense comprises current and deferred tax relating to foreign subsidiary and is recognized in consolidated statement of income in accordance with the laws prevailing in the country where the Group entity operates.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they arise, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

i) Impairment

Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

In addition, in accordance with CBK instructions, a minimum general provision of 1% on all cash facilities net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, is made.

Financial assets measured at amortized cost

The Group considers evidence of impairment for financial assets measured at amortized cost (loans and receivable and murabaha and wakala investments) at a specific asset level. All individually significant assets are assessed for specific impairment.

In assessing impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in consolidated statement of income. Interest on the impaired asset continues to be recognized. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated statement of income.

Available-for-sale investments

Impairment losses on available-for-sale investments are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognized previously in profit or loss.

Any subsequent recovery in the fair value of impaired available-for-sale investments is reecognized in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in consolidated statement of income. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

j) Zakat

Zakat is computed in accordance with the requirements of Law No. 46 of 2006 and charged to the consolidated statement of income.

k) Kuwait Foundation for the Advancement of Sciences ("KFAS")

Contribution towards KFAS is computed at 1% of profit of the Company after deducting transfers made to statutory reserve.

l) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these consolidated financial statements but are disclosed in the notes to the consolidated financial statements.

4. Cash and bank balances

	2012 KD	2011 KD
Cash on hand	-	4,739
Bank balances	557,388	1,502,953
	557,388	1,507,692

5. Murabaha and wakala investments

	2012 KD	2011 KD
Parent Company	2,259,719	1,974,911
General provision	(22,472)	(19,749)
Specific provision	(213,455)	-
	2,023,792	1,955,162

The effective yield on murabaha and wakala receivables denominated in KD ranges from 1.5% to 2.0% (2011: 1. 5% - 2.0%).

In accordance with the CBK instructions dated 12 March 2007, a minimum general provision of 1% for all cash facilities is made on all murabaha investments, (net of certain restricted categories of collaterals) that are not provided specifically with effect from 1 January 2007.

6. Accounts and other receivables

	2012 KD	2011 KD
Accounts receivable	496,764	655,904
Impairment in accounts receivable	-	(166,531)
	496,764	489,373
Receivable from clearing company	-	120,132
Accrued investment revenue	54,050	18,374
Receivable relating to disposal of subsidiary	2,000,000	-
Others	9,808	68,767
	2,560,622	696,646

7. Related parties

Related parties include the Parent company, significant shareholders, subsidiaries, associate, directors and executive officers of the Group, close members of their families and companies of which they are the principal owners or over which they are able to exercise significant influence.

Related party balances reflected in the consolidated statement of financial position do not bear any interest except the Murabaha balance receivable from the Parent Company.

There are no agreed repayment terms. Accordingly these balances are treated as receivable / payable on demand.

Significant related party transactions and balances other than the one disclosed elsewhere in these consolidated financial statements are as follows:

	2012 KD	2011 KD
Transactions		
Affiliate- *consultancy fees*	(189,615)	(353,183)
Parent Company- *portfolio management fee*	204,518	274,039
Equity accounted – *portfolio management fees*	171,030	118,387
Parent Company- *Murabaha revenue*	85,430	82,630
Key management compensation	(60,000)	(60,000)

	2012 KD	2011 KD
Balances		
Due from related parties		
Affiliates and subsidiaries	98,123	17,691

8. Available-for-sale investments

	2012 KD	2011 KD
Quoted equity securities	8,800	8,800
Unquoted equity securities	9,740,315	8,392,542
	9,749,115	8,401,342

At the reporting date, unquoted equity is fair valued based on average of secondary market transaction prices during the last two months. Because of the inherent uncertainty of the valuation of unquoted equity (which are valued by the Group in the absence of readily ascertainable market value), the estimated fair value may differ from the value that would have been used had a ready market existed for this investment, and the differences could be material.

The fair value of quoted investments as at 31 December 2012 is based on the last bid price.

9. Disposal of subsidiary

On 19 December 2012, the Group disposed off its entire stake in Watheeqa Securities Brokerage Company S.A.E. (note 14) for a consideration of KD 2.5 million and the Group has recorded realized a gain of KD 1,517,896 in the consolidated statement of income for the year ended 31 December 2012 relating to the disposal.

10. Investment in equity accounted investee

	2012 KD	2011 KD
Carrying value at 1 January	6,257,741	6,266,531
Cost of new acquisitions	-	18,739
	6,257,741	6,285,270
Group's share of results	(730,012)	12,541
Group's share of other comprehensive income	123,836	(40,070)
Carrying value at 31 December	5,651,565	6,257,741

The closing price of the shares of this investee on the Kuwait Stock Exchange (KSE) is 156 fils as of reporting date (2011: 220 fils), and the fair value of the Group's investment is KD 3,907,800. (2011: KD 5,511,000)

Summary of financial information for investment in equity-accounted investee is as follows:

2012	**Total assets KD**	**Total liabilities KD**	**Revenues KD**	**Expenses KD**	**Profit KD**
Al Mudon International Real Estate Company K.S.C.C.	14,483,499	554,507	1,810,458	4,849,996	(3,039,538)

2011	**Total assets KD**	**Total liabilities KD**	**Revenues KD**	**Expenses KD**	**Profit KD**
Al Mudon International Real Estate Company K.S.C.C.	18,430,398	1,044,883	1,787,731	1,451,113	336,618

11. Property and equipment

	Buildings KD	Improvements on leased buildings KD	Furniture and office equipments KD	Tools KD	Computers KD	Vehicles KD	Total KD
Cost							
Balance at 1 January 2012	1,223,134	525,901	109,861	51,673	224,537	25,718	2,160,824
Additions	-	-	583	-	1,987	-	2,570
Disposals	-	-	(5,049)	-	(768)	-	(5,817)
Disposal of subsidiary (Note 9)	(1,223,134)	(485,159)	(62,758)	(51,450)	(154,335)	(18,170)	(1,995,006)
Balance at 31 December 2012	-	40,742	42,637	223	71,421	7,548	162,571
Depreciation							
Balance at 1 January 2012	1,215,641	385,502	62,035	40,602	190,269	21,229	1,915,278
Depreciation for the year	1,523	30,039	13,637	2,657	23,002	2,718	73,576
Relating to disposal	-	-	(2,103)	-	(411)	-	(2,514)
Disposal of subsidiary (Note 9)	(1,217,164)	(375,229)	(34,362)	(43,036)	(144,207)	(16,399)	(1,830,397)
Balance at 31 December 2012	-	40,312	39,207	223	68,653	7,548	155,943
Carrying amount							
Balance at 31 December 2012	-	430	3, 430	-	2,768	-	6,628

	Buildings KD	Improvements on leased buildings KD	Furniture and office equipments KD	Tools KD	Computers KD	Vehicles KD	Total KD
Cost							
Balance at 1 January 2011	1,187,533	301,472	788,330	42,928	227,334	26,547	2,574,144
Additions	35,601	224,429	6,044	8,745	1,252	-	276,071
Disposals	-	-	(684,513)	-	(4,049)	(829)	(689,391)
Balance at 31 December 2011	1,223,134	525,901	109,861	51,673	224,537	25,718	2,160,824
Depreciation and impairment losses							
Balance at 1 January 2011	718,271	152,737	512,704	37,914	160,125	17,103	1,598,854
Depreciation for the year	1,770	43,078	28,891	2,688	32,239	4,561	113,227
Impairment loss	495,600	189,687	-	-	-	-	685,287
Disposals	-	-	(479,560)	-	(2,095)	(435)	(482,090)
Balance at 31 December 2011	1,215,641	385,502	62,035	40,602	190,269	21,229	1,915,278
Carrying amount							
Balance at 31 December 2011	7,493	140,399	47,826	11,071	34,268	4,489	245,546

During 2011, the Group performed an impairment test on the subsidiary, as management believed that there was an objective evidence supporting the impairment in value of subsidiary. The exercise revealed that the subsidiary was impaired by KD 685,287 and this impairment was applied against buildings and leasehold improvements on buildings of subsidiary.

12. Accounts and other payables

	2012 KD	2011 KD
Accounts payables	39,600	610,443
Accrued expenses	44,694	79,007
Contribution to KFAS	60,358	52,605
Provision for Zakat	63,375	52,079
Others	4,650	29,918
	212,677	824,052

13. Equity

13.1 Share capital

The authorized, issued and paid up share capital of the Company is KD 15,000,000 (2011: KD 15,000,000) comprised of 150 million (2011: 150 million) shares of 100 fils each. The share capital is paid in cash by the shareholders.

13.2 Statutory reserve

In accordance with the Kuwait Companies Law, as amended, and the Company's articles of association 10% of the profit for the year is required to be transferred to the statutory reserve until the reserve totals 50% of the paid up share capital. Distribution from statutory reserve is limited to enable payment of a dividend of 5% of paid up share capital in years when retained earnings are not sufficient for payment of dividends.

13.3 Voluntary reserve

In accordance with the Company's articles of association, 10% of the profit for the year is transferred to the voluntary reserve. Such annual transfers can be discontinued by a resolution of shareholders in the annual general assembly meeting upon recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve.

14. Investment income/ (loss)

	2012 KD	2011 KD
Gain on sale of subsidiary (Note 9)	1,517,896	-
Changes in fair value of investments at fair value through profit or loss	(34)	(13,331)
Loss on sale of investment at investments at fair value through profit or loss	(4,177)	(170,746)
Dividends	493,709	13,678
Murabaha revenue	85,430	82,630
	2,092,824	(87,769)

15. General and administrative expenses

	2012 KD	2011 KD
Staff costs	578,129	708,958
Consultancy fees	189,615	353,183
Rent	99,552	118,100
Depreciation	73,576	113,227
Impairment loss on receivables	-	14,751
Others	392,944	214,942
	1,333,816	1,523,161

16. Financial risk management

Overview

The Group has exposure to the following risks arising from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from bank balances, murabaha investments, accounts and other receivables and due from related parties.

Placements and receivables are managed by each company in the Group subject to the Group's established policy, procedures and controls. Credit limits are established for all customers and other parties based on rating criteria. Exposure to receivables is monitored on an ongoing basis for collections. The Group has established an allowance for impairment that represents its estimate of unrealized losses in respect of receivables.

Bank balances are maintained only with reputable banks with appropriate credit ratings.

The carrying amount of following financial assets represents the maximum credit exposure at the reporting date:

	2012 KD	2011 KD
Bank balances	557,388	1,502,953
Murabaha investments	2,023,792	1,955,162
Accounts receivables	496,764	489,373
Receivable from clearing company	-	120,132
Other debit balances	4,784	67,474
Due from related parties	98,123	17,691
Long term receivables	-	109,940
Receivable relating to disposal of a subsidiary	2,000,000	-
	5,180,851	4,262,725

The maximum exposure to credit risk for financial assets at the reporting date by geographic region was:

	2012 KD	2011 KD
Kuwait	5,180,851	2,403,499
Egypt	-	1,859,226
	5,180,851	4,262,725

The aging of accounts receivables and murabaha investments at the reporting date was:

	2012		2011	
	Gross KD	Provision KD	Gross KD	Provision KD
Not past due	1,689,208	-	1,974,911	19,749
Past due 31 – 120 days	1,067,275	235,927	655,904	166,531
	2,756,483	235,927	2,630,815	186,280

The movement in the provisions in respect of accounts receivables and murabaha investments during the year was as follows:

	2012 KD	2011 KD
Balance at 1 January	186,280	258,909
Charged for the year	223,297	26,730
Reversals during the year	(173,650)	(99,359)
Balance at 31 December	235,927	186,280

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate amount of cash reserves, by continuously monitoring cash flows and matching the maturity profiles of financial assets and liabilities. The Group is also able to draw from its significant shareholders and the Parent Company.

The contractual maturities of all the financial liabilities at the reporting date falls within one year.

Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates, profit rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currency of Group entities, primarily the Egyptian Pound (EGP), Saudi Riyal (SAR), Great Briton Pound (GBP) and United State Dollar (USD).

Management requires the Group entities to manage their foreign currency exposure risk against their functional currency.

At the reporting date, following is the foreign currency exposure of the Group on notional basis:

	2012			
	USD	**GBP**	**EGP**	**SAR**
Available-for-sale investments	-	-	-	129,694,482
Murabaha investments	-	433,579	20,100,500	-
Accounts and other receivables	31,514	13,108	879,000	19,261
Cash and bank balances	4,010	3,431	586	12,622
Net exposure	35,524	450,118	20,980,086	129,726,365
Net exposure (KD)	9,918	196,897	954,910	9,742,709

	2011			
	USD	**GBP**	**EGP**	**SAR**
Available-for-sale investments	-	-	-	112,822,167
Murabaha investments	-	-	18,000,000	-
Long term receivables	-	-	2,376,965	-
Accounts and other receivables	-	-	10,980,530	-
Cash and bank balances	275,028	-	26,942,409	-
Accounts and other payables	(10,011)	-	(14,098,746)	-
Net exposure	265,017	-	44,201,158	112,822,167
Net exposure (KD)	73,929	-	2,044,303	8,392,841

The following significant exchange rates applied during the year.

	Average rates 2012	**Reporting date spot rates 2012**	**Average rates 2011**	**Reporting date spot rates 2011**
Saudi Riyal	0.074746	0.075102	0.074655	0.07439
Egyptian pound	0.045883	0.045515	0.047305	0.04625
Great Briton Pound	0.435123	0.437435	0.432913	0.43281
United State Dollar	0.279074	0.279188	0.280840	0.27896

Sensitivity analysis

A strengthening (weakening) of the Kuwaiti Dinar, as indicated below, against the foreign currencies at 31 December would have (decreased)/ increased equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remains constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for 31 December 2011.

	2012		**2011**	
	Equity KD	**Profit or (loss) KD**	**Equity KD**	**Profit or (loss) KD**
Saudi Riyal (10% movement)	974,271	974,271	839,284	839,284
Egyptian pound (10% movement)	95,491	95,491	204,430	204,430
Great Briton Pound(10% movement)	19,690	19,690	-	-
United State Dollar (10% movement)	992	992	7,392	7,392

Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in equity market prices, whether caused by factors specific to an individual investment, issuer or all factors affecting all instruments traded in the market.

The Group's quoted investments are listed on Kuwait Stock Exchange and are included in the Index of respective stock exchanges.

For quoted investments, a 5% increase (decrease) in the respective index at reporting date assuming that all other variables held constant and all the quoted investments moved according to the historical correlation with the respective index, would have no significant impact on profit (2011: KD 265).

The Group's investments in unquoted equities are of strategic nature and are intended to be held for long term. The value of these investments is not significantly sensitive to the volatility in the equity markets.

Profit rate risk

Profit rate risk is the risk of fluctuations in profit / yield rates on the profit bearing financial assets and liabilities.

At the reporting date Murabaha receivable amounting to KD 2,023,792 (2011: KD 1,955,162) is exposed to profit rate risk.

The Group assumes a fluctuation in profit rates of 25 basis points and estimates the following impact on the net profit for the year and net assets at that date:

	2012		**2011**	
	Equity KD	**Profit or (loss) KD**	**Equity KD**	**Profit or (loss) KD**
Fluctuation in yield by 25 basis points	5,060	5,060	4,340	4,340

A 25 basis points negative fluctuation in the profit rates would have the same, but opposite, effect on the net profit or loss for the year and equity.

Fair value

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

In the opinion of the management, the estimated fair value of financial assets and liabilities that are not carried at fair value at the reporting date is not materially different from their carrying value.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2012	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Investments at fair value through profit or loss	619	-	-	619
Available-for-sale investments	8,800	-	9,740,315	9,749,115
	9,419	-	9,740,315	9,749,734

2011	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Investments at fair value through profit or loss	78,427	-	-	78,427
Available-for-sale investments	8,800	-	8,392,542	8,401,342
	87,227	-	8,392,542	8,479,769

The following table shows a reconciliation from the beginning balances to the ending balances for investments measured using Level 3 inputs:

	2012 KD	2011 KD
Balance at 1 January	8,392,542	8,392,542
Fair value gain recognised in other comprehensive income	1,347,773	-
Balance at 31 December	9,740,315	8,392,542

No transfers into or out of level 3 occurred during the year.

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would not have a significant effect on the underlying investments.

Capital management

The Group's capital management objectives are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the costs of capital.

The Group's exposure to capital risk is limited as there are no external financing as at the reporting date. Further, the Group is not subject to externally imposed capital requirements, except the minimum capital requirements of the Kuwait Companies Law, as amended.

There were no changes in the Group's approach to capital management during the year.

17. Fiduciary Assets

The Group manages portfolios on behalf of third parties 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 fiduciary capacity by the Group at 31 December 2012 amounted to KD 42,605,637 (2011: KD 43, 886,782).