

Annual Review **2013**





The Dar Al-Athar Al-Islamiyyah is one of Kuwait's leading cultural organizations and home to the Al-Sabah Islamic art collection - acknowledged as one of the world's finest collections of Islamic art. The collection consists of over 30,000 priceless objects, including manuscripts, scientific instruments, carpets, fabrics, jewelry, ceramics, ivory, metalwork and glass dating from the seventh century CE from countries such as Spain, India, China and Iran.

This year, the annual reports of KIPCO Group companies each feature a different key ceramic artifact from The Al-Sabah Collection. The images used within the reports reflect KIPCO's commitment to protecting and promoting Kuwait's heritage, while helping to build the nation's future.

The item pictured here (LNS 165 C) is a jug made in Turkey during the 16th century CE. The decoration seems to represent a mythical hunt featuring a dragon attacked by a lion and dogs chasing rabbits. The image is reproduced with the kind permission of the Dar Al-Athar Al-Islamiyyah.

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H.H. Sheikh Sabah
Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait



H.H. Sheikh Nawaf
Al-Ahmad Al-Jaber Al-Sabah
Crown Prince of the State
of Kuwait

Our Vision & Mission

Vision

To be Kuwait's preferred asset management and investment banking provider.

Mission

To offer innovative and customized solutions that fulfils all the asset management and investment needs while delivering tangible results for our clients.



“Turning challenges into opportunities”

Our Story

Established in 1998 with the mission to become a leading local and regional player, KAMCO has today become one of the leading Kuwait based Investment Companies in the region. A subsidiary of United Gulf Bank (UGB) – the investment banking subsidiary of Kuwait Projects (Holding) Company (KIPCO) – KAMCO was listed on the Kuwait Stock Exchange (KSE) in 2003. Over 15 years of conducting business in Kuwait’s dynamic investment industry, KAMCO has established a robust reputation for performance, characterized by its prudent and conservative investment philosophy which has consistently commanded the goodwill of a wide and growing client base.

KAMCO’s main activities are in Asset Management and Investment Banking. The Asset Management Division concentrates on providing its clients with customized portfolio management, access to IPOs, local and international fund management with risk-adjusted return maximization, risks mitigation and capital appreciation for individual and institutional clients. Its Investments Division specializes in providing its clients with unique investment opportunities, financial and advisory services. KAMCO is supported by its well known investment research team which tracks the latest investment themes and trends across local and regional economies and capital markets, providing precise advice to KAMCO’s team and thought leadership to its clients and market.

KAMCO operates within the spirit of full transparency with its client’s best interests at heart. Going forward, the company strategy is to further build upon its core competencies and to offer MENA-wide products and financial services, backed by its strong team, proven track-record, successful investment product innovation and a cautious investment approach towards local, regional and international capital markets.

Our Board of Directors

Sheikh Abdullah Nasser Sabah Al-Ahmad Al-Sabah
Chairman

Entisar Abdul Raheem Al-Suwaidi
Vice Chairman

Masaud Mahmoud Jawhar Hayat
Board Director

Sheikha Dana Nasser Sabah Al-Ahmad Al-Sabah
Board Director

Tariq Mohammad Abdulsalam
Board Director



“Our achievements in 2013”

KAMCO has returned to profitability in 2013, increasing its operational income and entering into a new growth trajectory with numerous initiatives to grow its investment products and client focused services

KAMCO's assets under management have grown by 20% in 2013, standing at KD 2.9 billion, placing it as one of the largest managers in the region with its managed funds and portfolios achieving superior returns to benchmarks and placing it as one of the top performers in Kuwait

KAMCO's investment banking activities and achievements continue to place it as one of the leading investment advisors in Kuwait with completion of major transactions and with significant market share of completed transactions in the market

Having celebrated its 15th year from inception, KAMCO continues to grow its thought leadership, market interaction and CSR activities as a leader in the sector in Kuwait

“Adversities make us stronger to advance farther”

Overview

The year 2013 was a good year for Kuwait and most regional and global capital markets, building on the previous year where most markets performed positively and after a very tough 2011. Investors' confidence has further grown in capital markets and our clients aspirations for more investment opportunities and services as well as better returns in a low interest rate environment has increased, providing KAMCO with an opportunity to build on its solid platform and standing, rising to the challenge of achieving our clients objectives, exceeding benchmarks and delivering double-digit returns to our clients from capital market investments as well as providing dynamic and valuable advice to clients in the investment banking side.

Despite the onset of the financial crises, KAMCO was able to maintain profitability in 2008 to 2010 and incurred non-operational losses for the first time in its history in 2011 and 2012 as a result of increased pressures on the sector in those two years with the ongoing impact of the global financial crises combined with the dampening impact of the Arab spring on the region. KAMCO took the opportunity in those two years to undertake an extensive restructuring of its balance sheet and operating model, focusing on exiting non-core investments, reducing leverage and further transforming itself into a truly client-focused investment house. Having successfully completed the bulk of its restructuring and incurring losses in those two years, KAMCO successfully returned to profitability in 2013, as its increased focus on core operations yielded considerable upturn in operational profits as well as significant reduction in expenses with debts being trimmed down to approximately KD 29 million in 2013, a decrease of 27% as compared to 2012.

In Kuwait, KAMCO continued to grow its operational activities, pushing to develop and launch new products and services. Meanwhile, with the introduction of additional regulations by Kuwait's CMA, KAMCO successfully rose to the challenge of further developing its already advanced organizational structures and processes in line with the developing regulatory environment, allowing it to be one of the first investment companies to issue new licensed products for its clients.

During 2013, the company successfully launched the KAMCO GCC Opportunistic Fund in April 2013 out of Bahrain and achieved a return of approximately 24% by the end of the year, outperforming its benchmark, the S&P GCC Composite Index by approximately 6% over the same period. Additionally, KAMCO's Real Estate Yield Fund was one of the first local funds in Kuwait to get CMA approval for fund raising in late 2013.

Meanwhile, KAMCO Investment Fund (KIF) returned approximately 12% and outperformed its benchmark, the KAMCO TRW Index, by approximately 6% and the Kuwait Weighted Index by approximately 4%. This put KIF among the top three funds in its category in Kuwait, and allowed it to be nominated for a number of prestigious regional awards.

Among the notable investment banking transactions during the year was the successful completion of a bond issuance of KD 60 million by United Real Estate Company as a lead manager, the largest corporate issuance seen by the sector in Kuwait to date. The bond issuance was oversubscribed by over 150%.

KAMCO was also active in providing financial advisory and restructuring services to several clients in different sectors, along with advising clients on buy and sell side mergers and acquisition (M&A) transactions. During the year, KAMCO was involved in a number of key advisory transactions in corporate and financial restructurings for its clients as well.

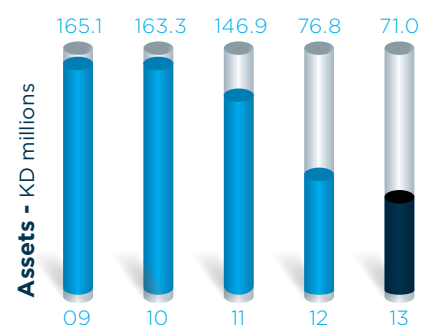
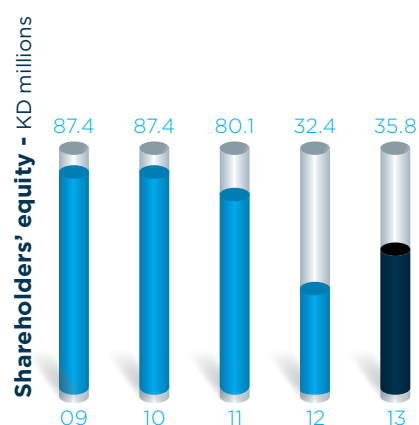
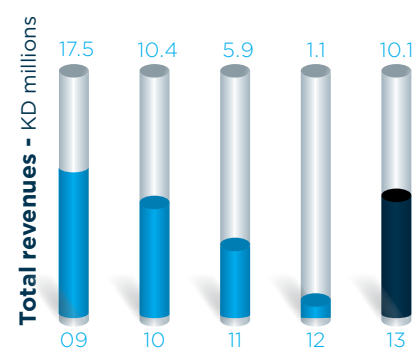
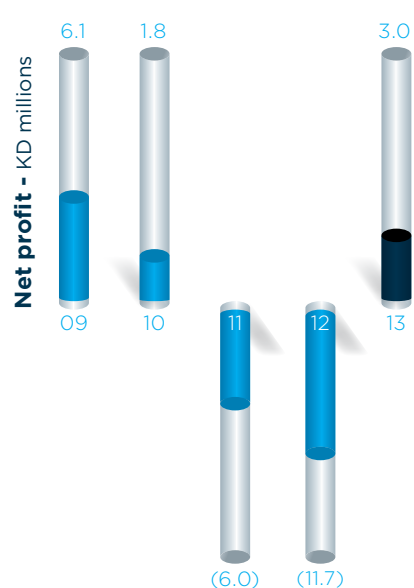
A highpoint in KAMCO's international portfolio's investment strategy in 2013 was the shift of focus onto Technology focused securities. This was based on our studied conviction that technology stocks were set to continue to outperform many other sectors, given a favourable market environment. In 2013, spending on technology was forecast to rise. With further anticipated technological advances, interest of consumers in smart mobile telephones, new applications and social media remains robust. This shift in focus towards the sector came about as a result of KAMCO's research-based forecasts for 2013 and beyond. Other decisions influenced by our portfolio managers' research included reductions in fixed-income investments wherever possible and of the exposure to gold and precious metals in portfolios. A well-thought out research-based approach towards investment management has always served the company well in the past.

Staying on the international front, KAMCO's most successful achievement was to smoothly navigate and benefit from the transition in global equity markets from a largely negative environment as witnessed in much of 2011 and 2012 to a positive and growth-fuelled one in 2013, despite the negative performance of a number of key emerging markets.

KAMCO achieved solid double digit returns for the year in its managed international portfolios as a result of successful investment selection of quality stocks, mostly in developed global markets. In terms of markets, U.S. equities were over-weighted and their performance was among the best as developed stock markets outperformed emerging ones. Rounding out our international exposure were the positions distributed between Organisation for 'Economic Co-operation and Development (OECD)' economies and Latin America.

In conclusion, KAMCO has taken full advantage of a resurgent phase in the capital markets, positioning itself to reap the benefits based on its strong platform, reputation and track record. The year 2013 saw KAMCO once again proving the validity of its revised and profitable business model as its focus on further growing its core activities of asset management and investment banking placed the company on a new and exciting growth trajectory.

Financial Highlights 2013



- Operational Revenues including management fees, advisory fees and portfolio income increased by 27% from KD 6.6 Million to KD 8.4 Million.
- Operational profits grew up to reach KD 4 Million in 2013 (compared to KD 1.9 Million in 2012)
- AUM grew by 20% to reach KD 2.9 Billion
- Debts were reduced from KD 40 Million to KD 29 Million

	2009	2010	2011	2012	2013
Income Statements Highlights KD Million					
Total revenue	17.5	10.4	5.9	1.1	10.1
Operating expenses	11.2	8.6	11.9	12.8	7.0
Net profit	6.1	1.8	(6.0)	(11.7)	3.0

Financial Statements Highlights KD Million					
Total assets	165.1	163.3	146.9	76.8	71.0
Investments	146.5	140.9	131.5	66.4	62.6
Loans & advances and other assets	11.9	11.4	8.4	5.3	2.8
Loans & bonds	71.9	71.3	61.8	40	29.1
Shareholders' equity	87.4	87.4	80.1	32.4	35.8

Profitability					
Earnings per share (fils)	24.1	7.6	(25.3)	(48.9)	12.6
Expenses/Revenue	64%	83%	203%	1172%	69%
Return on assets	3.7%	1.1%	(4%)	(15%)	4%
Return on equity	7.0%	2.1%	(8%)	(36%)	8%

Capital					
Equity/Total assets	53%	53.5%	55%	42%	50%
Debt to equity (X)	0.82	0.82	0.8	1.3	0.8

Liquidity & Business Indicators					
Loans & advances and other assets/Total assets	7.2%	7.0%	6%	7%	4%
Investments /Total assets	88.8%	86.3%	89%	86%	88%
Asset under management KD Billion	2.2	2.4	2.1	2.4	2.9
Number of portfolio clients	876	809	713	740	716
Number of employees	119	118	114	80	109

Total Revenues

Management Fees	38%
Advisory Fees	14%
Share of result of associates	4%
Gain from investment in associates	10%
Dividend Income	6%
Gain on sale of financial assets available for sale	4%
Realized Gain on sale of financial assets at fair value through profit and loss	17%
Others	7%

Total Assets

Bank Balances & Cash	8%
Investments at Fair Value through Income statement	13%
Investments available for sale	50%
Investments in associates	26%
Other assets	4%

“Clawing back to scale new heights”

Chairman's Message

On behalf of KAMCO's board, it is my pleasure to announce to our respected shareholders that the company has infused hope back into its investors by delivering our promise of returning to profitability. Moreover, KAMCO was able to maintain and strengthen its position as one of the best performing asset management and investment companies in the region despite the ongoing consequences of the financial crisis, particularly on the investment sector.

These positive results have come on board due to your continuous support and trust in KAMCO. The implementation of the restructuring plan and the wise decisions taken by the management during the year, to boost the operational and financial performance of the company, reflected positively on KAMCO's Shareholders and clients.

Furthermore, the restructuring plan has contributed in enhancing the investment performance of the company as a whole, where we have focused our efforts on developing our strategic investments as well as offering a wider array of customized financial services and investment solutions that satisfy our client needs. All these developments gave the company more flexibility to take advantage of the promising investment opportunities, yet at the same time allowing for better resilience against the volatility and risk inherent in the local and international markets.

In line with the constructive actions taken by the Kuwait's CMA in terms of new rules and regulations directed towards improving the investment environment and protecting investors, KAMCO has put all its efforts to adopt these new rules and regulations given our strong belief in applying the best professional and ethical practices to best serve the investment profession.

Moreover, in an effort towards expanding KAMCO's exposure to diverse, attractive and income-generating investment sectors that fulfil our client expectations, we have launched KAMCO Real Estate Yield Fund, subsequent to receiving the requisite approvals, which we anticipate to commence its operation in Q2 of 2014. This step was a result of our confidence and positive outlook in the Real Estate Sector in the GCC region and other MENA countries, and our efforts to generate high risk-adjusted return through the launch of new investment products.

I am also glad to announce our positive financial results for the year end December 2013, where KAMCO posted a Net Profit of KD 3.0 million (Earning per Share of 12.6 fils); compared to a Net Loss of KD 11.7 million in 2012 (Earnings per Share of - 48.9 fils).

KAMCO achieved KD 10.1 million in operating revenues in 2013 against KD 1.1 million in 2012 and also was able to reduce its Debts by 27% to KD 29 million in 2013 as compared to KD 40 million in 2012.

Our AUM registered a significant growth of 20% in 2013 to reach KD 2.9 billion compared to KD 2.4 billion in 2012, positioning KAMCO as one of the largest asset managers in the region.

We are positive about our 2014 outlook supported by our balanced investment approach of geographical and investment diversification that aims at launching new investment tools targeted toward generating the highest income with the lowest risk in favour to our clients. Our future plans are in parallel with the geopolitical developments that are seen in the GCC financial markets to attract foreign investments, and the international and regional economic indices which are expected to boom in the coming years.

In conclusion, I would like to thank the KAMCO board of directors, executive management and employees for their active contribution and tangible efforts which are reflected through their wise decisions, specifically ones related to the company's restructuring, as well as their continuous support given to the company.

I would like to also emphasize that the success that KAMCO achieved in 2013 was a result of the collective effort by its management and team members, supported by the trust our shareholders have placed in us. On behalf of the KAMCO board, I would like to thank the executive management and all the employees for their hard work and professionalism which have led to the optimal possible outcome. As well, I would like to pay full gratitude to our valuable clients for their support and trust in us, promising them more mutual successes in the future.

Abdullah Nasser Al-Sabah
Chairman

“Launch forward onto a new growth phase”

Acting Chief Executive Officer's Message



2013 - Looking back

After two years that saw KAMCO incur losses for the first time in its history as a result of the on-going financial crises repercussions, the Arab spring impact as well as the extensive balance sheet and operating restructuring efforts resulting from KAMCO's revised corporate strategy, KAMCO returned strongly to profitability in 2013 under a more trimmed balance sheet, benefiting from its growing stature as a leading investment company with a stronger operational business model while capitalizing on improved local, regional and international capital markets under a recovering business environment.

In 2013, KAMCO was able to significantly restructure its balance sheet, reducing non-core investments and debts while significantly growing operating activities, delivering double-digit returns to our growing client base and maintaining a solid leadership position as an asset manager and investment bank of choice.

In 2013 and as markets recovered regionally and internationally, our equity activity achievements include the success of KAMCO GCC Opportunistic Fund that we launched in Bahrain in April 2013. This fund had a return of approximately 24% by the end of the year, outperforming its benchmark, S&P GCC Composite Index by approximately 6% over the same period. KAMCO Investment Fund (KIF), our Kuwait equity flagship fund returned approximately 12% and outperformed its benchmark, the KAMCO TRW Index, by approximately 6% and the Kuwait Weighted Index by approximately 4%. This performance put KIF among the top three funds in its category in Kuwait. Discretionary portfolios all outperformed their respective benchmarks and returned on aggregate over 15%, well above the relevant benchmarks. The same story was seen for our international markets performance where our team achieved solid double digit returns for clients.

The introduction and implementation of various risk analytical tools has further facilitated our analytical approach. The newly developed Portfolio Management System enhanced our capabilities to tailor investment

strategies based on specific management needs. The implementation of these technologies and upgrades has immensely enhanced the access and analysis of information as required for different business purposes.

On the investment banking front, activity in Kuwait has been more limited than that in other regional and international markets. Despite that, our team has maintained its positioning as a lead advisor for all major announced capital market activities, taking a lead role on major transactions and building on a solid track record. Visibility on investment banking activities was relatively weak and is starting to improve as markets recover and clients start looking at solutions for their growth plans. The government push for infrastructure spending should trickle down more to the private sector and therefore increase the demand for investment banking services and solutions by the private sector.

Our alternative investment team sustained the management of its Funds in different alternative asset classes and is in the process of further diversifying our product offering in alternative investments space in line with corporate strategy. KAMCO's product development team has also submitted a license request for a new alternative investment fund and is developing a number of new products as KAMCO grows its managed funds portfolio in the coming two years.

Acting Chief Executive Officer's Report

(Continued)

A big part of the credit of our investment success should go to the investment research team that continues to provide us with periodic research reports covering the MENA region and international markets during 2013. The company's management remains keen to further strengthen our research capabilities during the year. It is anticipated that the strengthening of the department will be achieved during 2014.

A key development in 2013 was the increased CMA and other regulator activity in introducing a significant number of new laws and regulations which have significantly changed the operating environment of the sector and the Kuwait Stock Exchange for the long term benefit of investors. KAMCO was at the forefront, fully complying with the new changes and requirements and has diligently followed-up with authorities to expedite its compliance. This effort has for example helped us obtain approval for the KAMCO Real Estate Yield Fund from the CMA, one of the first local investment companies to enjoy this privilege.

In spite of the political instability seen in some regional countries, major economies have shown material progress and growth both regionally and internationally. Our expectations are in line with most analyst in that if there are no major shocks, this growth is expected to continue, especially under the low interest rate and inflation environment. Moving to equity markets, the UAE had the two top performing markets last year with the DFM returning 107.69% and Abu Dhabi 63.08%. We were already positioned in the UAE market in late 2012, which helped us establish a strong footprint and capitalize on the continued positive economic performance. Over the year we continued to expand our UAE exposure, preferring real estate and construction sectors, later expanding to Banking and Investment sectors. Saudi and Qatar returned 25.50% and 24.17% respectively. Kuwait surged, although less than the GCC markets, with KSE Price Index returning 27.22% and KSE Weighted Index returning 8.43%.

Our expectations for 2014 are positive for the capital markets we operate in. With the recovery signs well in place, MENA capital markets are expected to further grow as economies prosper with increased government spending on much needed infrastructure and human capital. With the abundance of liquidity, this growth is expected to be real and visible. The year is expected to see some turbulence but if the geopolitical scene continues to improve, markets are expected to perform well overall with most markets achieving double digit returns. The MENA markets will see more flow of international money and this combined with significant development in the regulatory framework along with enhanced corporate governance will result in significant growth in depth and breadth of markets, with blue chips and growing medium sized enterprises benefiting the most in 2014.

In serving our market and community, KAMCO has always been dedicated to the best corporate social responsibility practices, covering different causes which include the environment, health and education sectors. In 2013, KAMCO highlighted the importance of preserving the environment by reviving its internal 'Recycling' campaign. Inspiring employees to protect the planet and to minimize carbon footprints is a vital part of KAMCO's strategy in giving back to the community. We have continued our mission to promote education by our ongoing sponsorship of the Chartered Financial Analyst (CFA) Kuwait Society Award Ceremony in Kuwait as well as our continuous support of the American University of Kuwait's Spring Career Fair. KAMCO professionals have also volunteered to conduct lectures at different universities to further educate audiences about the financial sector markets and best practices. KAMCO executives have been increasingly contributing by providing the investment industry with thought leadership in various forums and symposiums, benefiting the community in Kuwait. This strong commitment will in turn play a vital role in the economic activity of our country and contribute to its welfare.

Acting Chief Executive Officer's Report

(Continued)

2013 gave us more reasons to celebrate than just the return to profitability. KAMCO celebrated its 15th year anniversary and completion of 10 years as a listed company on the Kuwait Stock Exchange. This event highlighted the much appreciated role of the KAMCO's previous and existing board, top management and all employees and their loyalty and outstanding efforts during their tenure within the company, which led to the numerous notable successes that KAMCO has achieved to date.

Before closing, I would like to extend my appreciation and gratitude to all our staff who contributed to our success this year. I thank our shareholders, clients and partners for placing their trust in us, which further reinforces our confidence in our business model and inspires us to work harder to generate greater results in the future.

Faisal Mansour Sarkhou
Acting Chief Executive Officer

Executive Management



1. Faisal Mansour Sarkhou Acting Chief Executive Officer

Mr Sarkhou joined KAMCO's team in 2000 and was promoted to lead KAMCO in the position of Acting Chief Executive Officer in June 2012 and confirmed by the Board as Chief Executive Officer in the second half of 2013 (pending CMA process and approval) after heading the Financial Services and Investment Division at KAMCO since 2010 and the Corporate Finance Department from 2006 - 2010. He has extensive experience of up to 14 years in investment banking, asset management, financial products as well as financial services. Mr Sarkhou commenced his career in the late '90s

with KPMG Corporate Finance in Kuwait. He serves as a board member on several reputable companies and funds. He also sits on a number of company and investment management committees as well as being a board member on the Union of Investment Companies in Kuwait and a member of the advisory board of the College of Business & Economics at American University of Kuwait. Mr Sarkhou is an Economics graduate with honors from the University of Birmingham, UK and holds an EMBA with distinction from HEC Paris, France.



2. Ziad Hassan El-Kaissi Chief Investments Officer

Mr. El-Kaissi joined KAMCO in 2000 and currently he is the Chief Investments Officer. Over a career span of more than 23 years, he has worked with some of the largest banks and investment companies in Kuwait and Lebanon where he acquired an extensive experience in the Asset Management and Investment Banking Fields. He is a Member of the Economic Policy Committee, Union of Investment Companies - Kuwait, Board Member of Tamdeen Real Estate Company in Kuwait and a Board Member of PULSAR

Knowledge Centre PVT. LTD in India, Director in several Equity and Fixed Income Mutual Funds, and Member of the Investment Committee of KAMCO. Prior to joining KAMCO, he worked with the Arab Financial Consultants Company, the National Bank of Kuwait (NBK) and the Banque du Liban et d'Outre Mer (Blom Bank). Mr. El-Kaissi acquired Bachelor of Science degree, Finance Major from the Lebanese American University (LAU) in Beirut in 1991.

Executive Management (Continued)



3. Sriram Chandran Subramanian

Chief Financial Officer

Mr Sriram Chandran joined KAMCO in 2012 and was last appointed as Chief Financial Officer. In a career spanning over 20 years, he has worked with some of the largest companies in Kuwait and In India. Prior to joining KAMCO, he served as CFO with Wataniya Telecom Kuwait and as CFO of JTC Kuwait. Prior to that, he had worked

as Finance Head with global multinationals like 3M, GEC Alsthom & Union Carbide in India. Mr Sriram Chandran is a CPA & CISA from USA and CA, CWA and CS from India & an AMP (Advanced Management Program) alumni from Wharton University of Pennsylvania, USA.



4. Mahmoud Hamid Idris

Chief Support Officer

Mr Idris joined KIPCO (Kuwait Projects Holding Company) in 1996, and then joined KAMCO since its inception in 1998. He was last promoted to the position of Chief Support Officer in 2013, after heading the Operations Department at KAMCO. Mr Idris has an extensive experience of up to 25 years in investment companies, specifically in the

fields of investment auditing, accounting, and back office operation activities. He is a Kuwait University graduate majoring in Accounting and Auditing. Furthermore, Mr Idris has obtained his MBA degree from the University of Maastricht, School of Business-the Netherlands.



5. Mohammed Abdullah Al Hubail

Chief Resources Officer

Mr Mohammed Al-Hubail Joined "KAMCO"'s Team as Senior Vice President – Administration Department in 2009, and he was promoted to Chief Resources Officer in 2013. He has extensive practical experience up to 20 years in the field of Human Resources and Administration and

in the accountancy sector in general. He worked with Enhanced Engineering & Multi-Technologies Co. and Kuwait Investment Project Co. and with the Kuwait Foreign Petroleum Exploration. Mr Al-Hubail is also a member of several boards of companies in Kuwait.



This year, the annual reports of KIPCO Group companies each feature a key ceramic artifact from The Al-Sabah Art Collection – one of the world's finest collections of Islamic art. These images are reproduced with the kind permission of the Dar Al-Athar Al-Islamiyyah.

How to obtain our 2013 Financial Statements:

Shareholders attending our General Assembly meeting will be provided with a draft printed copy of the Financial Statements for their approval. Shareholders can request a printed copy of the Financial Statements to be sent to them by courier seven days before the advertised date of the General Assembly; please call 185 26 26 to arrange this.

Shareholders can request a copy of the Financial Statements to be sent to them by email seven days before the advertised date of the General Assembly; please contact info@kamconline.com to arrange this.

Shareholders can download a PDF copy of the Financial Statements seven days before the advertised date of the General Assembly from our company website: www.kamconline.com

The KIPCO Group is one of the biggest holding companies in the Middle East and North Africa, with consolidated assets of US\$ 30.5 billion as at 31 December, 2013. The Group has significant ownership interests in over 60 companies operating across 24 countries. The group's main business sectors are financial services, media, real estate and manufacturing. Through its core companies, subsidiaries and affiliates, KIPCO also has interests in the education and medical sectors.

For further information on our 2013 Financial Statements or for extra copies of this Review, please call + 965 185 26 26

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**Kipco Asset Management Company
K.S.C.P. and Subsidiaries**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KIPCO ASSET MANAGEMENT COMPANY K.S.C.P.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kipco Asset Management Company K.S.C.P. (the "Company") and subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The Company's 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.

Auditors' Responsibility

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
KIPCO ASSET MANAGEMENT COMPANY K.S.C.P. (continued)**

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

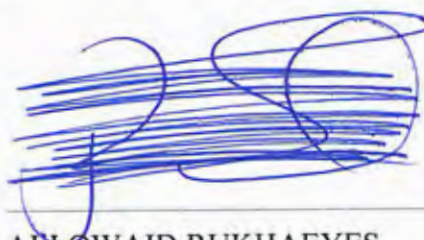
Report on Other Legal and Regulatory Matters

Furthermore, in our opinion proper books of account have been kept by the Company and the consolidated financial statements, together with the contents of the report of the Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and the consolidated financial statements incorporate all information that is required by the Companies Law No. 25 of 2012, as amended and by the Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012, as amended nor of the Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2013 that might have had a material effect on the business of the Company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, or of the provisions of Law No. 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2013.



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



ALI OWAID RUKHAEYES
LICENCE NO. 72-A
MEMBER OF THE INTERNATIONAL
GROUP OF ACCOUNTING FIRMS


9 March 2014
Kuwait


Kipco Asset Management Company K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 KD	2012 KD
ASSETS			
Cash and cash equivalents	5	5,617,207	5,030,291
Loans and advances	6	167,587	187,333
Financial assets at fair value through profit or loss	7	8,925,851	7,817,495
Financial assets available for sale	8	35,316,067	41,726,568
Investment in associates	9	18,348,090	16,890,608
Other assets	10	2,607,869	5,132,401
TOTAL ASSETS		70,982,671	76,784,696
LIABILITIES			
Loans	11	29,138,000	40,000,000
Other liabilities	12	4,158,044	2,451,283
TOTAL LIABILITIES		33,296,044	42,451,283
EQUITY			
Share capital	13	26,330,175	26,330,175
Share premium	13	9,089,045	9,089,045
Treasury shares	13	(12,680,289)	(12,654,936)
Statutory reserve	13	11,668,860	11,503,429
Voluntary reserve	13	227,542	62,111
Treasury shares reserve	13	1,383,134	1,383,134
Cumulative changes in fair values		(2,117,635)	(2,546,405)
Foreign currency translation reserve		(126,527)	(157,422)
Employees' share option reserve	14	859,555	859,555
Retained earnings (accumulated losses)		1,200,253	(1,485,657)
Equity attributable to equity holders of the Company		35,834,113	32,383,029
Non controlling interests		1,852,514	1,950,384
TOTAL EQUITY		37,686,627	34,333,413
TOTAL LIABILITIES AND EQUITY		70,982,671	76,784,696


Abdullah Naser Sabah Al-Ahmad Al-Sabah
Chairman


Faisal Mansour Sarkhou
Chief Executive Officer

Kipco Asset Management Company K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2013

	Notes	2013 KD	2012 KD
Fee income	15	5,274,928	5,536,125
Net gain on financial assets at fair value through profit or loss	16	1,973,432	337,245
Gain on sale of financial assets available for sale	8	379,742	2,849,075
Gain arising on step acquisition of a subsidiary	22	-	382,122
Gain arising on acquisition of an associate	9	998,743	-
Gain (loss) on fair valuation of investment retained in a former associate	9	9,053	(177,048)
Loss on sale of investment in associates	9	-	(5,026,030)
Share of results of associates	9	360,796	(3,535,657)
Dividend income		571,520	553,718
Interest income		54,873	101,803
Foreign exchange gain		48,890	5,462
Reversal of previous written off other assets		322,282	-
Other income		123,210	61,578
INCOME		10,117,469	1,088,393
Administrative expenses		4,336,437	5,203,235
Finance costs		1,581,225	3,108,616
Impairment of financial assets available for sale	8	929,655	3,910,275
Impairment of investment in associates	9	500,000	1,626,646
Release of provision for credit losses	17	(369,817)	(1,090,864)
EXPENSES		6,977,500	12,757,908
PROFIT (LOSS) BEFORE DIRECTORS' REMUNERATION AND CONTRIBUTION TO KUWAIT FOUNDATION FOR ADVANCEMENT OF SCIENCE ("KFAS"), ZAKAT AND NATIONAL LABOUR SUPPORT TAX ("NLST")	18	3,139,969	(11,669,515)
Directors' remuneration		(50,000)	-
Contribution to KFAS		(32,107)	-
Zakat		(32,107)	-
NLST		(80,268)	-
PROFIT (LOSS) FOR THE YEAR		2,945,487	(11,669,515)
Attributable to:			
Equity holders of the Company		3,016,772	(11,687,500)
Non-controlling interests		(71,285)	17,985
		2,945,487	(11,669,515)
Earnings (loss) per share attributable to equity holders of the Company:			
- Basic earnings (loss) per share	19	12.6 fils	(48.9) fils
- Diluted earnings (loss) per share	19	12.6 fils	(48.9) fils

Kipco Asset Management Company K.S.C.P. and Subsidiaries
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013

	Note	2013 KD	2012 KD
Profit (loss) for the year		2,945,487	(11,669,515)
Other comprehensive income (loss):			
<i>Other comprehensive income (loss) to be reclassified to consolidated income statement in subsequent periods:</i>			
Financial assets available for sale:			
- Fair value gain		41,891	4,017,122
- Transfer to consolidated income statement on disposal / impairment		549,913	(1,061,200)
Share of other comprehensive loss of associates	9	(189,619)	(2,394,833)
Foreign currency translation adjustments		30,895	12,491
Net other comprehensive income to be reclassified to consolidated income statement in subsequent periods		433,080	573,580
Total comprehensive income (loss) for the year		3,378,567	(11,095,935)
Attributable to:			
Equity holders of the Company		3,476,437	(11,113,920)
Non-controlling interests		(97,870)	17,985
		3,378,567	(11,095,935)

Kipco Asset Management Company K.S.C.P. and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2013

Attributable to equity holders of the Company

	Share capital KD	Share premium KD	Treasury shares KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares reserve KD	Cumulative changes in fair values KD	Foreign currency translation reserve KD	Employees' share option reserve KD	Retained earnings (accumulated losses) KD	Total KD	Non-controlling interests KD	Total equity KD
As at 1 January 2013	26,330,175	9,089,045	(12,654,936)	11,503,429	62,111	1,383,134	(2,546,405)	(157,422)	859,555	(1,485,657)	32,383,029	1,950,384	34,333,413
Profit (loss) for the year	-	-	-	-	-	-	-	-	-	3,016,772	3,016,772	(71,285)	2,945,487
Other comprehensive income (loss)	-	-	-	-	-	-	428,770	30,895	-	-	459,665	(26,585)	433,080
Total comprehensive income (loss) for the year	-	-	-	-	-	-	428,770	30,895	-	3,016,772	3,476,437	(97,870)	3,378,567
Transfer to reserves	-	-	-	165,431	165,431	-	-	-	-	(330,862)	(25,353)	-	(25,353)
Purchase of treasury shares	-	-	(25,353)	-	-	-	-	-	-	-	-	-	-
As at 31 December 2013	26,330,175	9,089,045	(12,680,289)	11,668,860	227,542	1,383,134	(2,117,635)	(126,527)	859,555	1,200,253	35,834,113	1,852,514	37,686,627
As at 1 January 2012	26,330,175	9,089,045	(12,636,997)	11,503,429	11,565,540	1,383,135	(3,107,494)	(169,913)	859,555	35,314,389	80,130,864	726,849	80,857,713
Profit (loss) for the year	-	-	-	-	-	-	-	-	-	(11,687,500)	(11,687,500)	17,985	(11,669,515)
Other comprehensive income	-	-	-	-	-	-	561,089	12,491	-	-	573,580	-	573,580
Total comprehensive income (loss) for the year	-	-	-	-	-	-	561,089	12,491	-	(11,687,500)	(11,113,920)	17,985	(11,095,935)
Transfer to retained earnings (Note 13)	-	-	-	-	(11,503,429)	-	-	-	-	11,503,429	-	-	-
Dividend (Note 9 and 13)	-	-	-	-	-	-	-	-	-	(36,615,975)	(36,615,975)	-	(36,615,975)
Purchase of treasury shares	-	-	(17,940)	-	-	-	-	-	-	-	(17,940)	-	(17,940)
Sale of treasury shares	-	-	1	-	-	(1)	-	-	-	-	-	-	-
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	2,546,928	2,546,928
Redemption of share capital by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(581,378)	(581,378)
Ownership changes in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(760,000)	(760,000)
As at 31 December 2012	26,330,175	9,089,045	(12,654,936)	11,503,429	62,111	1,383,134	(2,546,405)	(157,422)	859,555	(1,485,657)	32,383,029	1,950,384	34,333,413

Kipco Asset Management Company K.S.C.P. and Subsidiaries

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013

	Notes	2013 KD	2012 KD
OPERATING ACTIVITIES			
Profit (loss) for the year		2,945,487	(11,669,515)
Adjustments for:			
Unrealised (gain) loss on financial assets at fair value through profit or loss	16	(233,623)	14,210
Gain on sale of financial assets available for sale	8	(379,742)	(2,849,075)
Gain arising on the step acquisition of a subsidiary	22	-	(382,122)
Gain arising on acquisition of associates	9	(998,743)	-
(Gain) loss on fair valuation of investment retained in a former associate	9	(9,053)	177,048
Loss on sale of investment in associates	9	-	5,026,030
Share of results of associates	9	(360,796)	3,535,657
Dividend income		(571,520)	(553,718)
Interest income		(54,873)	(101,803)
Foreign exchange gain		(48,890)	(5,462)
Finance costs		1,581,225	3,108,616
Impairment of financial assets available for sale	8	929,655	3,910,275
Impairment of investment in associates	9	500,000	1,626,646
Release of provision of credit losses	17	(369,817)	(1,090,864)
Provision for employees' end of service benefits		792,664	563,146
		<u>3,721,974</u>	<u>1,309,069</u>
Change in operating assets and liabilities:			
Loans and advances		19,746	1,412,322
Financial assets at fair value through profit or loss		(468,242)	(1,733,941)
Other assets		2,395,398	1,191,480
Other liabilities		1,064,241	(993,941)
		<u>6,733,117</u>	<u>1,184,989</u>
Cash from operations		571,520	553,718
Dividend received		(131,732)	(1,509,600)
Employees' end of service benefits paid			
		<u>7,172,905</u>	<u>229,107</u>
INVESTING ACTIVITIES			
Acquisition of a subsidiary, net of cash acquired	20	-	1,570,192
Purchase of financial assets available for sale		(1,574,539)	(703,390)
Proceeds from sale of financial assets available for sale		5,357,555	20,615,196
Purchase of investment in associates		-	(6,200,000)
Proceeds from capital redemption of investment in associates	9	1,997,303	4,988,562
Proceeds from sale of investment in associates		-	9,942,056
Dividend received from associates	9	72,180	72,180
Interest income received		54,873	101,803
		<u>5,907,372</u>	<u>30,386,599</u>
FINANCING ACTIVITIES			
Purchase of treasury shares		(25,353)	1
Proceeds from sale of treasury shares		-	(17,940)
Loans availed		25,494,300	37,500,000
Loans repaid		(36,356,300)	(59,250,000)
Dividend paid		-	(7,166,057)
Finance costs paid		(1,599,637)	(3,166,387)
Movement in non-controlling interests (redemption of share capital by a subsidiary)		-	(581,378)
		<u>(12,486,990)</u>	<u>(32,681,761)</u>
Net cash flows used in financing activities			
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		593,287	(2,066,055)
Foreign currency translation adjustments		(6,371)	(8,574)
Cash and cash equivalents at 1 January		5,030,291	7,104,920
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	<u>5,617,207</u>	<u>5,030,291</u>

Kipco Asset Management Company K.S.C.P. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2013

1 CORPORATE INFORMATION

The consolidated financial statements of Kipco Asset Management Company K.S.C.P. (the "Company") and subsidiaries (collectively the "Group") were authorised for issue by the Board of Directors on 9 March 2014. The shareholders of the Company have the power to amend these consolidated financial statements at the annual general assembly.

The Company is a Kuwaiti closed shareholding company registered and incorporated in Kuwait on 28 September 1998 under the Commercial Companies Law No. 15 of 1960 and amendments thereto and is listed on the Kuwait Stock Exchange. The Company is registered with the Central Bank of Kuwait ("CBK") as an investment company and is subject to the supervision of Capital Markets Authority ("CMA").

The Company's registered head office is at Sharq, Al Shaheed Tower, Khalid Bin Al-Waleed Street, Kuwait City, P.O. Box 28873, Safat 13149, Kuwait.

The purpose for which the company has been established is to undertake the following activities:

1. Investing in real estate, industrial and agricultural sectors as well as other economic sectors by contributing to the establishment of specialized companies or purchases the shares or bonds of these companies in the various sectors.
2. Contribution to the establishment or the partial ownership of companies in the different sectors.
3. Managing the funds of public and private institutions and investing these funds in the different economic sectors including the management of financial & real estate portfolios.
4. Provision and preparation of the technical, economic and assessment studies and consultancies and studying investment related projects and conducting the necessary studies thereof for the institutions and companies provided that the necessary conditions should be met by those who will practice such activity.
5. Brokerage in Lending and Borrowing Operations.
6. Carrying out the works related to issue managers for such bonds issued by the company and institutions as well as the works of investment custodians.
7. Financing and brokerage in international trade operations.
8. Providing loans for third parties with duly observing the ethics of financial solvency in granting such loans and at the same time preserving the continuity of the company's financial position soundness according to the conditions, rules, and limitations set forth by the Central Bank of Kuwait.
9. Dealing and trading in foreign currency market and precious metals market inside Kuwait and abroad.
10. Undertaking the operations related to securities trading such as the purchase and sale of the shares & bonds of local and international companies and governmental authorities.
11. Carrying out all services that help with development and enhancement of the market financial & cash ability to in Kuwait and meeting its needs, all within the limits permitted by the law as well as any procedures & instructions issued by the Central Bank of Kuwait
12. Establishment and management of all kinds of investment funds according to the law.

Also, the company may have interest or otherwise participate in any manner with such institutions who are practicing similar business or which may assist the company in realizing its goals in Kuwait or abroad. Furthermore, the company may establish, participate or purchase these institutions or affiliate them.

The Company is a subsidiary of United Gulf Bank B.S.C. (the "Parent Company") which is listed on the Bahrain Stock Exchange. The Parent Company is a subsidiary of Kuwait Projects Company Holding K.S.C.P. (the "Ultimate Parent Company") which is listed on the Kuwait Stock Exchange.

The New Companies Law issued on 26 November 2012 by Decree Law no. 25 of 2012 (the "Companies Law"), cancelled the Commercial Companies Law No. 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Decree Law no. 97 of 2013 (the "Decree"). The Executive Regulations of the new amended law issued on 29 September 2013 was published in the Official Gazette on 6 October 2013. As per article three of the Executive Regulations, the companies have one year from the date of publishing the Executive Regulations to comply with the new amended law.

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group are prepared under the historical cost convention as modified for the revaluation at fair value of financial assets at fair value through profit or loss and financial assets available for sale. The consolidated financial statements of the Group are presented in Kuwaiti Dinars ("KD"), which is the functional currency of the Company.

2.2 STATEMENT OF COMPLIANCE

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 CBK. These regulations require adoption of all International Financial Reporting Standards ("IFRS") except for the International Accounting Standard ("IAS") 39 requirement for a collective provision, which has been replaced by the CBK requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

2.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of the consolidated financial statement are consistent with those used in the preparation of consolidated financial statements ended 31 December 2012 except for the adoption of the following new and amended IFRS during the period. The adoption of new IFRS also resulted in amendments to policies on 'basis of consolidation' during the period.

IFRS 7: Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendment) (effective for annual periods beginning on or after 1 January 2013)

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The adoption of this standard does not have any material impact on the consolidated financial statements of the Group.

IFRS 10: Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013)

IFRS 10 replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements*. It also addresses the issues raised in SIC-12 *Consolidation - Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significant judgement to determine which entities are controlled and therefore, are required to be consolidated by the Group, compared with the requirements that were in IAS 27. The Group, regardless of the nature of its involvement with an entity, shall determine whether it is a parent by assessing whether it controls the entity. The Group controls an investee when it 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. Once control is established, the standard requires the Group to start consolidating the investee from the date the investor obtains control of the investee and cease consolidation when the investor loses control of the investee. This resulted in change in accounting policy for "basis for consolidation" as described in note 3 below.

IFRS 11: Joint Arrangements (effective for annual periods beginning on or after 1 January 2013)

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. This amendment has no impact on the Group's financial position of performance.

IFRS 12: Disclosure of Involvement with Other Entities (effective for annual periods beginning on or after 1 January 2013)

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to disclose information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of the consolidated entities. The Group has provided these disclosures in notes 9 and 20.

2.3 CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 13: Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The adoption of this standard does not have any material impact on the financial position or performance of the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. The Group has provided these disclosures in Note 25.

IAS 1: Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendment) (effective for annual periods beginning on or after 1 July 2012)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The adoption of this standard has no effect on the financial position or performance of the Group and only resulted in presentation changes in statement of comprehensive income.

IAS 28: Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The adoption of this standard did not have any material impact on the consolidated financial statements of the Group.

2.4 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

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The standard was initially effective for annual periods beginning on or after 1 January 2015, but International Accounting Standards Board ("IASB") in its July 2013 meeting tentatively decided to defer the mandatory effective date of IFRS 9 until the issue date of the completed version of IFRS 9 is known. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but is not expected to have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

Kipco Asset Management Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2013

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the Company's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries [including Special Purpose Vehicles ("SPV's")] as at 31 December 2013. The subsidiaries of the Group are:

Name of company	Country of incorporation	Equity interest as at 31 December	
		2013	2012
Subsidiaries			
Al-Nuzoul Holding Company K.S.C. (Closed)	Kuwait	99.2%	99.2%
Al-Janah Holding Company K.S.C. (Closed)	Kuwait	99.2%	99.2%
Al Rawabi International Real Estate Company K.S.C. (Closed)	Kuwait	99%	99%
Orange Real Estate Company W.L.L.	Kuwait	99.80%	99.80%
KAMCO Real Estate Company S.P.C.	Bahrain	100%	100%
Kuwait Private Equity Opportunities Fund ("KPEOF")	Kuwait	66.28%	66.28%
KAMCO GCC Opportunistic Funds	Bahrain	100%	-
SPV's treated as subsidiaries			
Al Zad Real Estate Company W.L.L.	Kuwait	99.40%	99.40%
First North Africa Real Estate Company W.L.L.	Kuwait	99.70%	99.70%
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	99.80%	99.80%
Al Raya Real Estate Projects Company W.L.L.	Kuwait	99.80	99.80%
First Homes Real Estate Company W.L.L.	Kuwait	99%	99%

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled 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 interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated income statement.

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

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

Financial assets

Initial recognition and measurement

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

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

A "regular way" purchase of financial assets is recognised using the trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

The Group's financial assets include cash and cash equivalents, loans and advances, financial assets at fair value through profit or loss, financial assets available for sale and other assets.

The Group has not classified any financial asset as "derivatives designated as hedging instruments" at inception upon initial recognition.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

A financial asset at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets at fair value through profit and loss are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated income statement. Financial assets designated upon initial recognition at fair value through profit and loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied.

Financial assets available for sale

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

After initial recognition, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated income statement, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated income statement.

Financial assets available for sale whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

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, 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 interest rate method. The interest rate method amortisation is included in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement.

The Group classifies cash and cash equivalents, loans and advances and certain other assets as its "loans and receivables".

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

Derecognition of financial assets

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrowers or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets available for sale

For financial assets available for sale, the Group assesses at each reporting date whether there is objective evidence that 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. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on those financial assets available for sale previously recognised in the consolidated income statement, is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

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

Loans and receivables

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

In addition, in accordance with CBK instructions, a minimum general provision of 1% for cash facilities and 0,5% for non-cash facilities is made on all applicable credit facilities (net of certain categories of collateral), that are not provided for specifically.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

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

The Group classifies its financial liabilities other than at fair value through profit or loss as loans and certain other liabilities.

The Group has not classified any financial liability at “fair value through profit or loss” or “derivatives” at inception upon initial recognition.

Subsequent measurement

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

Financial liabilities other than at fair value through profit or loss

After initial recognition, financial liabilities other than at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance cost in the consolidated income statement.

Term loans

After initial recognition, interest bearing loans are subsequently measured at amortised cost using the effective interest rate method.

Other liabilities

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Derecognition of financial liabilities

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

Offsetting

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value

The Group measures financial instruments, such as, financial assets available for sale, at fair value at each balance sheet 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 by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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.

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

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

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of income and is disclosed under 'Share of results of associates'.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is 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, then recognises the loss as 'Impairment loss on associates' in the consolidated statement of income.

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

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.

Provisions

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

End of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labour Law and employee contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the reporting date.

For its national employees, the Group provides end of service benefits under the Kuwait Labour Law after deducting Group's contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries.

Treasury shares

Treasury shares consist of the Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, "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 and then to the statutory and voluntary reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of stock dividend increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Share based payment transactions

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payment transactions (continued)

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

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

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

Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to KD at rates of exchange prevailing on that date. Any resultant gains or losses are recognised in the consolidated income statement.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to KD at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly through other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised in the consolidated income statement are recognised in the consolidated income statement.

Assets (including goodwill) and liabilities, both monetary and non-monetary, of foreign operations are translated at the exchange rates prevailing at the reporting date. Operating results of such operations are translated at average exchange rates for the year. The resulting exchange differences are accumulated in other comprehensive income (foreign currency translation reserve) until the disposal of the foreign operation. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated income statement.

Income recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Fee income

Fees earned for the provision of services over a period of time are accrued over that period. These fees include management fees, advisory fees and commission income.

Dividend income

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

Interest income

Interest income is recognised as interest accrues using the effective yield method.

Taxation

Taxation is provided for in accordance with the fiscal regulations in Kuwait where the Group operates.

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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.

National Labour Support Tax (NLST)

The Group calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the period. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST are deducted from the profit for the year when determining taxable profit.

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 statement of financial position, but are disclosed when an inflow of economic benefits is probable.

Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance is consistent with the internal reports provided to the chief operation decision maker. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

4 SIGNIFICANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the reporting date. However, uncertainty about the assumptions and estimates could result in outcomes that require a material adjustment to the amount of the asset or liability reported in future periods.

Judgements

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

Classification of financial instruments

Judgements are made in the classification of financial instruments based on the management's intention at acquisition.

Impairment of equity financial assets available for sale

The Group treats equity financial assets available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement.

Structured entities

The Group uses judgement 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 Group determines whether it needs to consolidate this entity based on the consolidation principles of IFRS 10. The management of the Company has determined that it does not have any consolidated structured entities as at the reporting date.

4 SIGNIFICANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgements (continued)

Structured entities (continued)

The Group uses judgement 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 Group determines whether it needs to consolidate this entity based on the consolidation principles of IFRS 10. The management of the Company has determined that it does not have any consolidated structured entities as at the reporting date. Based on the detailed assessment prepared by the management, the Group does not have exposure in any structured entities and accordingly no disclosure has been made in the consolidated financial statements of the Group.

Estimation uncertainty and assumptions

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

Impairment losses on loans and advances

The Group reviews its problematic loans and advances on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Valuation of unquoted financial assets

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

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- an earnings multiple or industry specific earnings multiple;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

Impairment of non-financial assets

An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of an asset's net selling price and value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. An assessment is made at each statement of financial position date to determine whether there is objective evidence that an asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of comprehensive income.

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

Kipco Asset Management Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2013

5 CASH AND CASH EQUIVALENTS

	2013 KD	2012 KD
Cash at banks and on hand	3,645,333	3,064,680
Short term deposits	1,971,874	1,965,611
	<u>5,617,207</u>	<u>5,030,291</u>

6 LOANS AND ADVANCES

	2013 KD	2012 KD
Gross amount	169,335	189,651
Less: General provision for credit losses (see below)	(1,748)	(2,318)
	<u>167,587</u>	<u>187,333</u>

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

	2013 KD	2012 KD
At 1 January	2,318	481,872
Release of credit losses for the year (Note 17)	(570)	(479,554)
	<u>1,748</u>	<u>2,318</u>

7 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013 KD	2012 KD
Held for trading		
Quoted equity securities	8,911,775	7,817,495
Designated upon initial recognition		
Unquoted equity securities	14,076	-
	<u>8,925,851</u>	<u>7,817,495</u>

Kipco Asset Management Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2013

8 FINANCIAL ASSETS AVAILABLE FOR SALE

	2013 KD	2012 KD
<i>Quoted securities:</i>		
Equities	1,150,748	832,042
<i>Unquoted securities:</i>		
Equities	14,055,350	16,488,964
Debt securities	540,000	140,000
Managed equity funds	16,785,496	21,324,189
Managed debt funds	-	156,900
Managed portfolios	2,784,473	2,784,473
	<u>34,165,319</u>	<u>40,894,526</u>
	<u>35,316,067</u>	<u>41,726,568</u>

As at 31 December 2013, certain financial assets (unquoted equities and debt securities) amounting to KD 14,452,360 (2012: KD 16,618,462) were carried at cost less impairment due to the non-availability of quoted market prices or other reliable measures of their fair values. There is no active market for these financial assets and the Company intends to hold them for long term. The management believes that there is no further impairment in value of these investments.

Managed equity funds, managed debt funds and managed portfolios amounting to KD 19,569,969 (2012: KD 24,265,562) are carried at the latest net assets value provided by the respective fund managers. Management has performed a detailed review of its unquoted managed equity funds, managed debt funds and managed portfolio to assess whether impairment has occurred in the value of these investments and recorded an impairment loss of KD 29,103 (2012: KD 2,555,863) in the consolidated income statement.

During the year, the Group realised gain on sale of quoted investments amounting to KD 83,151 (2012: KD 1,951,489) and gain on sale of unquoted investments amounting to KD 296,591 (2012: KD 897,586).

An impairment charge of KD 929,655 (2012: KD 3,910,275) has been recognised in respect of certain financial assets available for sale for which there has been a significant or prolonged decline in fair value below cost. Except this, the management is not aware of any circumstances that would indicate any impairment in the value of the above financial assets as of the reporting date.

Kipco Asset Management Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2013

9 INVESTMENT IN ASSOCIATES

Details of associates are as follows:

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Effective interest as at 31 December</i>	
		<i>2013</i>	<i>2012</i>
Quoted:			
Manafae Investment Company K.S.C.P.	Kuwait	32.66%	32.66%
Unquoted:			
United Capital Transport Company K.S.C. (Closed)	Kuwait	39.80%	39.80%
Al Sharq Financial Brokerage Company K.S.C. (Closed)**	Kuwait	19.25%	19.25%
United Gulf Financial Services Company	Tunisia	-	20%
Royal Capital Company P.J.S.C.	United Arab Emirates	26%	26%
MENA Homes Real Estate Company K.S.C. (Closed)	Kuwait	20%	20%
Kuwait Education Fund	Kuwait	20.95%	-

** The Group exercises significant influence through board representation.

	<i>2013</i>	<i>2012</i>
	<i>KD</i>	<i>KD</i>
At 1 January	16,890,608	71,239,509
Acquisitions (including transfer from available for sale investments)	3,820,506	7,555,702
Arising on acquisition of a subsidiary	-	261,118
Share of results	360,796	(3,535,657)
Share of reserves	(189,619)	(2,394,833)
Foreign currency translation adjustment	53,894	11,242
Dividend received	(72,180)	(72,180)
Capital redemption (see note below)	(1,997,303)	(4,988,562)
Impairment*	(500,000)	(1,626,646)
Disposals (including transfer to financial assets available for sale)	(18,612)	(15,541,932)
Reclassification on step acquisition of a subsidiary (Note 22)	-	(4,567,235)
Distribution to shareholders (see note below)	-	(29,449,918)
	18,348,090	16,890,608

Investment in associates include an quoted associate with carrying value of KD 5,617,374 (2012: KD 5,915,445), having a market value of KD 3,999,000 (2012: KD 3,472,000).

* In accordance with the requirements of IAS 36: *Impairment of assets*, the Company assessed the recoverable amount of its investment in associates and determined that investment in Al Sharq Financial Brokerage Company K.S.C. (Closed) and Kamco Energy Services Fund L.P. was impaired by KD 500,000 (2012: KD 1,200,000) and Nil (2012: KD 426,646) respectively.

During the current year, following are the major transactions:

- On 16 December 2013, the Company acquired an additional 6.4% equity interest in Kuwait Education Fund ("KEF") (previously classified as an financial assets available for sale), for a cash consideration of KD 1,018,029. Accordingly the Group's equity interest in KEF increased from 14.54% to 20.95%. Following the acquisition of additional equity interest, KEF became an associate of the Group. As a result, the Company has recognised a gain on previously held equity interest of KD 848,773 and bargain purchase gain of KD 149,970 in the consolidated statement of income.
- During the year, Royal Capital Company P.S.C. ("Royal Capital"), an associate of the Group, redeemed capital to the investors in proportion of their holding and accordingly the Group received KD 1,997,303 (2012: KD 2,866,340) upon such capital redemption.

9 INVESTMENT IN ASSOCIATES (continued)

- One of the associates, United Gulf Financial Services ("UGFS"), increased its share capital and the Company's investment in UGFS reduced from 20% to 6.67%. Accordingly, the Company has lost its significant influence over UGFS and derecognised its investment in UGFS as an associate. The Group reclassified its remaining equity interest in UGFS as a 'financial asset available for sale' and recognised a fair valuation gain of KD 9,053 in the consolidated income statement classified under 'gain (loss) on fair valuation of investment retained in a former associate'.

During the previous year, following are the major transactions:

- In the annual general assembly held on 3 May 2012, the shareholders and the regulatory authorities approved an in kind distribution of 155,290,580 shares of United Industries Company K.S.C.P. ("UIC"), an associate of the Group, to the shareholders of the Company proportionate to their shareholding as of 3 May 2012, at the carrying value. The carrying value of the UIC shares distributed by the Group amounted to KD 29,449,918. Consequently the Group lost its significant influence over UIC and derecognised its investment in UIC as an associate. The Group reclassified its remaining equity interest of 3% in UIC as a financial asset available for sale and recognised a fair valuation loss of KD 177,048 in the consolidated income statement. The fair valuation loss has been recorded in the consolidated income statement as gain (loss) on fair valuation of investment retained in a former associate'.
- In August 2012, the Group acquired an additional 21.11% equity interest in Kuwait Private Equity Opportunities Fund ("KPEOF") (previously classified as an associate of the Group), for a cash consideration of KD 1,154,482. Accordingly the Group's equity interest in KPEOF increased to 66.28%. Following the acquisition of additional equity interest, KPEOF became a subsidiary of the Group and has been consolidated from the date of exercise of control (Note 22).
- In June 2012, the Company paid KD 6,200,000 towards the capital increase in Overland Real Estate Company W.L.L. ("OREC"), an associate of the Group. Further on 30 September 2012, the Company sold its entire equity interest in OREC to its Ultimate Parent Company for a consideration of KD 9,826,800 resulting in a loss of KD 5,190,196. The loss on sale of OREC has been recorded in the consolidated income statement as 'loss on sale of investment in associates'.
- On 12 December 2012, the Fund Manager of Kamco Energy Services Fund L.P. ("the Fund"), an associate of the Group, resolved to liquidate the Fund. On 27 December 2012, the Group received 95% of the total liquidation proceeds amounting to KD 2,122,222 and accordingly the Group lost its significant influence over the Fund and as of the reporting date, the Fund is not an 'associate' of the Group. Upon loss of significant influence, the Group has recycled its share of reserves from equity accounting of KESF amounting to KD 48,910 to the consolidated income statement and included the gain as part of 'loss on sale of investment in associates'.
- On 20 December 2012, the Group sold its entire equity interest of 20% in Dhow Development Company ("Dhow"), an associate of the Group which was fully written off in the previous years, to a related party for a consideration of KD 115,256 resulting in a gain of KD 115,256. The gain on sale of Dhow has been included in the consolidated income statement as part of 'loss on sale of investment in associates'.

Summarised financial information of associates is as follows:

	2013 KD	2012 KD
Share of associates' statement of financial position:		
Total assets	19,724,726	14,401,057
Total liabilities	3,938,357	572,170
Net assets	15,786,369	13,828,887
Share of associates' revenue and profit (loss) for the year:		
Revenue	1,063,616	55,956
Profit (loss)	360,796	(3,535,657)

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9 INVESTMENT IN ASSOCIATES (continued)

Summarised financial information of material associates is as follows:

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Effective interest at 31 December</i>	
		<i>2013</i>	<i>2012</i>
Manafae Investment Company K.S.C.P.	Kuwait	32.66%	32.66%
United Capital Transport Company K.S.C. (Closed)	Kuwait	39.80%	39.80%
Kuwait Education Fund	Kuwait	20.95%	-
		<i>2013</i>	<i>2012</i>
		<i>KD</i>	<i>KD</i>
<i>Manafae Investment Company K.S.C.P.</i>			
Share of associates' statement of financial position:			
Total assets		5,822,715	6,158,884
Total liabilities		205,341	243,439
Net assets		5,617,374	5,915,445
Share of associates' revenue and loss for the year:			
Revenue		96,797	(278,876)
Loss		(306,509)	(912,660)
		<i>2013</i>	<i>2012</i>
		<i>KD</i>	<i>KD</i>
<i>United Capital Transport Company K.S.C. (Closed)</i>			
Share of associates' statement of financial position:			
Total assets		7,881,572	3,911,475
Total liabilities		3,501,910	139,637
Net assets		4,379,662	3,771,838
Share of associates' revenue and profit for the year:			
Revenue		624,460	141,759
Profit		584,748	521,794
		<i>2013</i>	<i>2012</i>
		<i>KD</i>	<i>KD</i>
<i>Kuwait Education Fund</i>			
Share of associates' statement of financial position:			
Total assets		3,705,646	-
Total liabilities		83,195	-
Net assets		3,622,451	-
Share of associates' revenue and profit for the year:			
Revenue		-	-
Profit		-	-

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10 OTHER ASSETS

	2013 KD	2012 KD
Due from related parties (note 23)	1,143,547	3,237,292
Due from portfolio clients	543,670	901,843
Office equipment (net)	79,060	41,867
Other receivables	841,592	951,399
	<u>2,607,869</u>	<u>5,132,401</u>

Movement in the provision for credit losses relating to other assets is as follows:

	2013 KD	2012 KD
At 1 January	1,906,543	2,517,853
Write off	(1,504,705)	-
Release for the year (note 17)	(369,247)	(611,310)
	<u>32,591</u>	<u>1,906,543</u>

11 LOANS

	2013 KD	2012 KD
Kuwaiti Dinars	23,500,000	40,000,000
US Dollars	5,638,000	-
	<u>29,138,000</u>	<u>40,000,000</u>

As at 31 December 2013, loans are denominated in Kuwaiti Dinars and US Dollars and are due within 1 to 3 years of the reporting date and carry interest rate ranging from 5% to 6.5% (2012: 5% to 6.5%).

12 OTHER LIABILITIES

	2013 KD	2012 KD
Accrued expenses	787,879	430,359
Employees' end of service benefits	2,488,598	1,821,966
Taxation	144,528	-
Dividend payable	68,436	82,580
Due to related parties (Note 23)	86,326	62,105
Other payable	582,277	54,273
	<u>4,158,044</u>	<u>2,451,283</u>

13 EQUITY**a) Share capital**

The authorised, issued and fully paid share capital comprises 263,301,750 shares (2012: 263,301,750 shares) of 100 fils per share (2012: 100 fils per share).

b) Share premium

The share premium is not available for distribution.

c) Treasury shares

	2013	2012
Number of treasury shares	24,691,812	24,476,586
Percentage of capital	9.38%	9.30%
Market value – KD	2,864,250	3,230,909

d) Statutory reserve

In accordance with the Companies Law and the Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Company before contribution to KFAS, Zakat, NLST and Directors' remuneration after adjusting for brought forward accumulated losses is transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up capital. The statutory reserve is not available for distribution except in certain circumstances stipulated by law.

e) Voluntary reserve

In accordance with the Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Company before contribution to KFAS, Zakat, NLST and Directors' remuneration after adjusting for brought forward accumulated losses is transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the Company's shareholders' general assembly upon a recommendation by the Board of Directors. Voluntary reserve is available for distribution.

As per the instruction of Central Bank of Kuwait dated 20 November 2008, the minimum general provision in excess of 1% on cash facilities and 0.5% on non-cash facilities amounting to KD 62,111 was recognised in the 2008 consolidated income statement and transferred to voluntary reserve and is not available for distribution.

In the annual general assembly held on 3 May 2012, the shareholders approved the transfer of KD 11,503,429 from voluntary reserve at 31 March 2012 to the retained earnings. Consequently this amount was transferred from voluntary reserve to the retained earnings.

f) Treasury shares reserve

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

g) Dividend

The board of directors of the Company proposed cash dividends of 5 fils per share for the year ended 31 December 2013 (2012: 30 fils), on outstanding shares excluding treasury shares to the Company's shareholders on records as of the date of the annual general assembly. This proposal is subject to the approval of the ordinary General Assembly of the shareholders of the Company.

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14 SHARE BASED PAYMENTS

The Company has a stock option plan for certain of its employees. Options are exercisable at a price approved by Board of Directors at the date of grant and expire if they are not exercised within the period specified in the grant. If an employee leaves the Group before the options vest, they are forfeited.

No stock options were granted during the current year and the previous year.

Total number of options outstanding as at 31 December 2013 are Nil (2012: 2,182,094), of which Nil options are exercisable as at the reporting date (2012: 2,182,094).

The Group recognised expense of KD Nil (2012: Nil) related to equity settled share based payment transactions during the year.

The remaining contractual life for the stock options outstanding as at 31 December 2013 is Nil years (2012: Nil).

15 FEE INCOME

	2013 KD	2012 KD
Fee from fiduciary activities	3,826,559	3,663,113
Advisory fee	1,448,369	1,872,901
Brokerage	-	111
	<u>5,274,928</u>	<u>5,536,125</u>

16 NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013 KD	2012 KD
Unrealised gain (loss)	233,623	(14,210)
Realised gain	1,739,809	351,455
	<u>1,973,432</u>	<u>337,245</u>

17 RELEASE OF PROVISION FOR CREDIT LOSSES

	2013 KD	2012 KD
Loans and advances (note 6)	570	479,554
Other assets (note 10)	369,247	611,310
	<u>369,817</u>	<u>1,090,864</u>

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18 PROFIT (LOSS) FOR THE YEAR

The profit (loss) for the year is stated after charging:

	2013 KD	2012 KD
Staff costs	3,239,750	2,490,799
Depreciation	38,926	49,599
Rent - operating leases*	240,902	211,685

* All the operating leases will be maturing within 1 year from the reporting date.

19 EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share amounts are calculated by dividing the loss for the year attributable to equity holders of the Company by the weighted average number of ordinary shares, less treasury shares outstanding during the year, as follows:

	2013 KD	2012 KD
Basic earnings (loss) per share:		
Earnings (loss) for the year attributable to the equity holders of the Company	3,016,772	(11,687,500)
	Shares	Shares
Number of shares outstanding:		
Weighted average number of paid up shares	263,301,750	263,301,750
Weighted average number of treasury shares	(24,522,950)	(24,442,362)
Weighted average number of outstanding shares	238,778,800	238,859,388
Basic and diluted earnings (loss) per share	12.6 fils	(48.9) fils

There are no potential diluted shares outstanding as at the reporting date.

20 MATERIAL PARTLY-OWNED SUBSIDIARIES

The Group has concluded that Kuwait Private Equity Opportunity Fund ("KPEOF") is the only subsidiary with non-controlling interest that is material to the Group. Financial information of subsidiary that have material non-controlling interest is provided below to the Group:

Proportion of equity interest held by non-controlling interests:

Name of company	Country of incorporation	Legal ownership interest at 31 December	
		2013	2012
Kuwait Private Equity Opportunity Fund ("KPEOF")	Kuwait	66.28%	66.28%
		2013 KD	2012 KD
Accumulated balances of material non-controlling interest:			
Kuwait Private Equity Opportunity Fund ("KPEOF")		1,850,051	1,946,699
Loss allocated to material non-controlling interest:			
Kuwait Private Equity Opportunity Fund ("KPEOF")		(70,654)	(2,326)

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20 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

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

<i>Summarised statement of profit or loss</i>	<i>2013 KD</i>	<i>2012 KD</i>
Income	90,643	27,258
Expenses	300,154	34,154
Total loss	(209,511)	(6,896)
Attributable to non-controlling interests	(70,654)	(2,326)
<i>Summarised statement of financial position</i>	<i>2013 KD</i>	<i>2012 KD</i>
Total assets	5,692,156	5,911,747
Total liabilities	177,757	156,848
Total equity	5,514,399	5,754,899
Attributable to:		
Equity holders of Parent Company	3,664,348	3,814,169
Non-controlling interests	1,850,051	1,940,730
<i>Summarised cash flow information:</i>	<i>2013 KD</i>	<i>2012 KD</i>
Cash flow from (used in) operating activities	15,466	(131,382)
Cash flow (used in) from investing activities	(305,640)	256,088
Cash flow used in financing activities	-	(1,700,138)
Net decrease in cash and cash equivalents	(290,174)	(1,575,432)

21 CONTINGENT LIABILITIES

As at 31 December 2013, the Group had contingent liabilities amounting to KD 200,000 (31 December 2012: KD 200,000) in respect of bank guarantees and letters of credit arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

22 BUSINESS COMBINATIONS

Arising in 2012

During the previous year, the Group acquired an additional 21.11% equity interest in Kuwait Private Equity Opportunities Fund ("KPEOF") (previously classified as an associate of the Group), for a cash consideration of KD 1,154,482. Accordingly, the Group's equity interest in KPEOF increased to 66.28%. Following the acquisition of additional equity interest, KPEOF became a subsidiary of the Group and has been consolidated from the date of exercise of control.

The acquisition has been accounted for in accordance with IFRS 3: Business combinations ("IFRS 3"). As the business combination was achieved in stages, the Group re-measured its previously held equity interest in KPEOF at the acquisition date fair value and recognised a loss of KD 38,523. Also, the Group has realised a gain bargain purchase upon acquisition of KPEOF amounting to KD 420,645. The net gain has been included in the consolidated income statement as part of "gain arising on step acquisition of a subsidiary".

Kipco Asset Management Company K.S.C.P. and Subsidiaries

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23 RELATED PARTY TRANSACTIONS

Related parties represent the Parent Company / Ultimate Parent Company, associates, directors and key management personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management. Balances and transactions with related parties are as follows:

	Parent Company / Ultimate Parent Company KD	Associates KD	Other related parties KD	Total 2013 KD	Total 2012 KD
Consolidated statement of financial position					
Cash and cash equivalents	2,002,956	-	1,010,874	3,013,830	4,068,150
Loans and advances	-	-	-	-	3,375
Financial assets at fair value through profit or loss	50,637	-	483,165	533,802	1,013,038
Financial assets available for sale	-	-	21,223,486	21,223,486	26,533,584
Other assets	51,049	-	1,092,498	1,143,547	3,237,292
Loans	-	-	16,638,000	16,638,000	27,000,000
Other liabilities	-	-	86,326	86,326	62,105
Consolidated income statement					
Fee income	967,840	64,641	2,281,952	3,314,433	3,731,210
Gain on sale of financial assets available for sale	-	-	-	-	783,087
Loss on sale of investment in associates	-	-	-	-	(5,074,940)
Dividend income	1,582	-	17,643	19,225	45,763
Interest income	1,977	-	-	1,977	11,108
Administration expenses	-	-	240,902	240,902	2,048,833
Finance cost	114,038	-	890,335	1,004,373	1,290,312
Transactions:					
Sale of financial assets available for sale	-	-	-	-	8,508,974
Purchase of financial assets available for sale	-	-	498,951	498,951	1,340,000
Sale of investment in associates	-	-	-	-	9,942,056
Distribution of investment in an associate to shareholders	-	-	-	-	29,449,918

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23 RELATED PARTY TRANSACTIONS (continued)

Key management personnel compensation:

	2013 KD	2012 KD
Short-term employee benefits	448,690	402,110
Termination benefits	407,709	239,391
	<u>856,399</u>	<u>641,501</u>

Board of Directors' remuneration of KD 50,000 (2012: Nil) is subject to approval by the ordinary General Assembly of the equity holders of the Company.

24 SEGMENTAL INFORMATION

For management purposes, the Group is organised into four major business segments based on the internal reporting provided to the chief operating decision maker. The Group does not have material inter-segment transactions. The principal activities and services under these segments are as follows:

- | | |
|----------------------------------|--|
| Financial services | : Financial services provides a full range of corporate finance services, including mergers and acquisitions, underwriting, private placements, project and investment evaluation and consulting. It also includes private equity and proprietary investment. |
| Asset management | : Asset management services cover both local and international markets and include securities trading, derivatives trading, portfolio structuring and asset allocation advice, mutual funds and alternative instruments. |
| Investment advisory and research | : Investment advisory and research provides investors with extensive data on all companies listed on the Kuwait and GCC exchanges, providing weekly and monthly reports, company profiles and equity research reports and offers advisory services to potential clients. |
| Strategic investments | : Strategic investments include investments which are long term in nature and are aligned with the Group's long term strategy. |

Management monitors operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segmental return on investments.

The following table presents total revenue, profit (loss) for the year and total assets information regarding the Group's operating segments.

Kipco Asset Management Company K.S.C.P. and Subsidiaries

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24 SEGMENTAL INFORMATION (continued)

	<i>31 December 2013</i>				
	<i>Financial services KD</i>	<i>Asset management KD</i>	<i>Investment advisory and research KD</i>	<i>Strategic investments KD</i>	<i>Total KD</i>
Total revenue	879,898	5,899,362	244,391	3,093,818	10,117,469
Profit (loss)	606,974	4,710,767	242,712	(2,614,966)	2,945,487
Total assets	-	25,320,486	3,339,577	42,322,608	70,982,671
Total liabilities	-	10,206,448	1,368,116	21,721,480	33,296,044
Other disclosures:					
Investment in associates	-	-	-	18,348,090	18,348,090
Share of results of associates	-	-	-	360,796	360,796
Impairment on financial assets available for sale	-	-	-	929,655	929,655
	<i>31 December 2012</i>				
	<i>Financial services KD</i>	<i>Asset management KD</i>	<i>Investment advisory and research KD</i>	<i>Strategic investments KD</i>	<i>Total KD</i>
Total revenue	5,295,938	3,142,945	282,506	(7,632,996)	1,088,393
Profit (loss)	2,370,669	1,229,942	(346,319)	(14,923,807)	(11,669,515)
Total assets	25,458,707	11,698,699	7,846	39,619,444	76,784,696
Total liabilities	-	6,094,287	4,087	36,352,909	42,451,283
Other disclosures:					
Investment in associates	-	-	-	16,890,608	16,890,608
Share of results of associates	-	-	-	(3,535,657)	(3,535,657)
Impairment on financial assets available for sale	-	-	-	3,910,275	3,910,275

The Group's total assets include KD 5,937,012 (2012: KD 9,837,385) as non-current assets located outside Kuwait, which mainly include investment in associates & financial assets available for sale. The Group's income from transactions with no single external customer exceeds 10% of the total income of the Group.

Kipco Asset Management Company K.S.C.P. and Subsidiaries

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25 FAIR VALUE OF FINANCIAL AND NON-FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), the carrying amount approximates their fair value. The fair values of financial instruments, with the exception of certain financial assets available for sale carried at cost (note 8), are not materially different from their carrying values.

The methodologies and assumptions used to determine fair values of financial instruments is described in fair value section of note 3: Summary of significant Accounting Policies.

Fair value hierarchy

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

Level 1: quoted (unadjusted) prices in an active market for identical assets and 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; and

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

Fair value hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2013	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Financial assets at fair value				
<i>Financial assets at fair value through profit or loss:</i>				
Quoted equities	8,911,775	-	-	8,911,775
Unquoted equities	-	-	14,076	14,076
<i>Financial assets available for sale:</i>				
Equities	1,150,748	-	142,995	1,293,743
Managed equity funds	-	15,518,900	1,266,591	16,785,491
Managed portfolios	-	-	2,784,473	2,784,473
	<u>10,062,523</u>	<u>15,518,900</u>	<u>4,208,135</u>	<u>29,789,558</u>

31 December 2012	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Financial assets at fair value				
<i>Financial assets at fair value through profit or loss:</i>				
Quoted equities	7,817,495	-	-	7,817,495
<i>Financial assets available for sale:</i>				
Equities	832,042	-	10,502	842,544
Managed equity funds	-	17,323,985	4,000,204	21,324,189
Managed debt funds	-	-	156,900	156,900
Managed portfolios	-	-	2,784,473	2,784,473
	<u>8,649,537</u>	<u>17,323,985</u>	<u>6,952,079</u>	<u>32,925,601</u>

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25 FAIR VALUE OF FINANCIAL AND NON-FINANCIAL INSTRUMENTS (continued)

The following table shows a reconciliation of the opening and closing amount of level 3 financial instruments which are recorded at fair value.

	<i>As at 1 January 2013 KD</i>	<i>(Loss) gain recorded in the consolidated income statement KD</i>	<i>Net purchases, sales, transfers and settlements KD</i>	<i>Recognised in other comprehensive income KD</i>	<i>As at 31 December 2013 KD</i>
<i>Financial assets at fair value through profit or loss:</i>					
Quoted	-	-	14,076	-	14,076
<i>Financial assets available for sale</i>					
Equities	10,502	(1,599)	120,462	13,630	142,995
Managed equity funds	4,000,204	41,208	(2,774,617)	(204)	1,266,591
Managed debt funds	156,900	481	(157,381)	-	-
Managed portfolios	2,784,473	-	-	-	2,784,473
	<u>6,952,079</u>	<u>40,090</u>	<u>(2,797,460)</u>	<u>13,426</u>	<u>4,208,135</u>
	<i>As at 1 January 2012 KD</i>	<i>(Loss) gain recorded in the consolidated income statement KD</i>	<i>Net purchases, sales, transfers and settlements KD</i>	<i>Recognised in other comprehensive income KD</i>	<i>As at 31 December 2012 KD</i>
<i>Financial assets available for sale</i>					
Equities	10,502	-	-	-	10,502
Managed equity funds	3,589,951	59,594	(15,439)	366,098	4,000,204
Managed debt funds	3,663,745	(72,745)	(3,519,765)	85,665	156,900
Managed portfolios	2,195,355	-	-	589,118	2,784,473
	<u>9,459,553</u>	<u>(13,151)</u>	<u>(3,535,204)</u>	<u>1,040,881</u>	<u>6,952,079</u>

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26 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for financial assets at fair value through profit or loss, financial assets available for sale and investment in associates is based on management's estimate of liquidation of those financial assets.

The maturity profile of assets and liabilities is as follows:

	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>Sub-total KD</i>	<i>1 to 5 years KD</i>	<i>Over five years KD</i>	<i>Total KD</i>
31 December 2013						
ASSETS						
Cash and cash equivalents	5,617,207	-	5,617,207	-	-	5,617,207
Loans and advances	-	-	-	167,587	-	167,587
Financial assets at fair value through profit or loss	8,925,851	-	8,925,851	-	-	8,925,851
Financial assets available for sale	-	1,690,748	1,690,748	33,625,319	-	35,316,067
Investment in associates	-	-	-	-	18,348,090	18,348,090
Other assets	929,017	1,599,792	2,528,809	79,060	-	2,607,869
TOTAL ASSETS	15,472,075	3,290,540	18,762,615	33,871,966	18,348,090	70,982,671
LIABILITIES						
Loans	10,500,000	11,000,000	21,500,000	7,638,000	-	29,138,000
Other liabilities	108,805	1,470,537	1,579,342	2,578,702	-	4,158,044
TOTAL LIABILITIES	10,608,805	12,470,537	23,079,342	10,216,702	-	33,296,044
	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>Sub-total KD</i>	<i>1 to 5 years KD</i>	<i>Over five years KD</i>	<i>Total KD</i>
31 December 2012						
ASSETS						
Cash and cash equivalents	5,030,291	-	5,030,291	-	-	5,030,291
Loans and advances	-	-	-	187,333	-	187,333
Financial assets at fair value through profit or loss	7,817,495	-	7,817,495	-	-	7,817,495
Financial assets available for sale	-	1,128,942	1,128,942	40,597,626	-	41,726,568
Investment in associates	-	-	-	-	16,890,608	16,890,608
Other assets	1,855,643	3,234,892	5,090,535	41,866	-	5,132,401
TOTAL ASSETS	14,703,429	4,363,834	19,067,263	40,826,825	16,890,608	76,784,696
LIABILITIES						
Loans	3,000,000	18,000,000	21,000,000	19,000,000	-	40,000,000
Other liabilities	127,362	438,412	565,774	1,885,509	-	2,451,283
TOTAL LIABILITIES	3,127,362	18,438,412	21,565,774	20,885,509	-	42,451,283

27 RISK MANAGEMENT

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into interest rate risk, currency risk and equity price risk. It is also subject to prepayment risk and operational risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

27.1 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation as it falls due and cause the other party to incur a financial loss.

The Group has policies and procedures in place to limit the amount of credit exposure to any one counter party. These procedures include the non concentration of credit risk.

Gross maximum exposure to credit risk

The Group's policy is to grant loans and advances to staff against collateral of their indemnity and to portfolio clients against collateral of their funds and securities which are managed by the Group. Receivables balances are monitored on an ongoing basis and the maximum exposure is the carrying amount as disclosed in note 6.

With respect to credit risk arising from the other financial assets of the Group, which comprise bank balances, debt securities included under financial assets available for sale and other assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

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

	2013 KD	2012 KD
Cash and cash equivalents	5,614,207	5,028,291
Loans and advances (Note 6)	167,587	187,333
Financial assets available for sale – debt securities and managed debt funds (Note 8)	540,000	296,900
Other assets (excluding property and equipment)	2,528,809	5,090,534
Gross maximum credit risk exposure before consideration of credit risk mitigation	8,850,603	10,603,058

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

Balances with Kuwaiti banks are guaranteed by the Government of Kuwait. Loans and advances to the portfolio clients are secured against investments in quoted and unquoted securities and fiduciary portfolios managed by the Group on behalf of the borrowers. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

27 RISK MANAGEMENT (continued)**27.1 CREDIT RISK (continued)**

The Group can sell the collateral in case of default by the borrower in accordance with the agreements entered with the borrowers. The Group has an obligation to return the collateral on the settlement of the loan or at the closure of the borrowers' portfolio with the Group.

The fair value of collateral that the Group holds relating to loans and advances as at 31 December 2013 amounts to KD 1,298,996 (2012: KD 247,333).

Risk concentration of maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group's gross maximum exposure to credit risk, before taking into account any collateral held or credit enhancements, can be analysed by the geographical regions as follows:

	<i>Kuwait KD</i>	<i>GCC and the rest of the Middle East KD</i>	<i>Total KD</i>
31 December 2013			
Cash and cash equivalents	2,143,223	3,470,984	5,614,207
Loans and advances	167,587	-	167,587
Financial assets available for sale – debt securities and managed debt funds	540,000	-	540,000
Other assets	2,528,809	-	2,528,809
Maximum exposure to credit risk assets	<u>5,379,619</u>	<u>3,470,984</u>	<u>8,850,603</u>
	<i>Kuwait KD</i>	<i>GCC and the rest of the Middle East KD</i>	<i>Total KD</i>
31 December 2012			
Cash and cash equivalents	1,979,388	3,048,903	5,028,291
Loans and advances	187,333	-	187,333
Financial assets available for sale – debt securities and managed debt funds	296,900	-	296,900
Other assets	5,090,534	-	5,090,534
Maximum exposure to credit risk assets	<u>7,554,155</u>	<u>3,048,903</u>	<u>10,603,058</u>

The Group's gross maximum exposure to credit risk, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors as:

	<i>2013 KD</i>	<i>2012 KD</i>
Banks and financial institutions	3,984,993	3,384,257
Others	4,865,610	7,218,801
	<u>8,850,603</u>	<u>10,603,058</u>

As at 31 December 2013, the maximum credit exposure to a single counterparty amounts to KD 2,002,956 (2012: KD 1,970,900).

27 RISK MANAGEMENT (continued)**27.1 CREDIT RISK (continued)***Credit quality of financial assets that are neither past due nor impaired*

Loans are granted to the staff and portfolio clients and are not material to the Group. The Group manages credit quality by ensuring that all loans granted have a minimum collateral coverage of 100% of the individual loans granted, which management reviews on a regular basis.

Analysis of past due but not impaired

The Group does not have any past due but not impaired financial assets as at 31 December 2013 and 31 December 2012.

27.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk is managed by the treasury department of the Company. To manage this risk, the Group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realisable. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

As at 31 December 2013, 52% of the Group's debt will mature in less than one year (2012: 38%) based on the carrying value of borrowings reflected in the consolidated statement of financial position. The management of the Company is currently considering steps to re-finance the short-term borrowings of the Group. These steps include creating liquidity by realising cash from sale of assets, dividends from financial assets and re-structuring of short-term borrowings.

The table below summarises the maturity profile of the Group's liabilities based on contractual undiscounted repayment obligations.

The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities. The liquidity profile of financial liabilities is as follows:

	<i>Within 1 month KD</i>	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>1 to 5 Years KD</i>	<i>Total KD</i>
31 December 2013					
Loans	9,531,024	1,006,870	11,252,123	8,110,958	29,900,975
Other liabilities	103,503	5,301	1,470,537	2,578,703	4,158,044
TOTAL LIABILITIES	9,634,527	1,012,171	12,722,660	10,689,661	34,059,019
	<i>Within 1 month KD</i>	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>1 to 5 Years KD</i>	<i>Total KD</i>
31 December 2012					
Loans	3,009,863	-	18,453,082	20,680,747	42,143,692
Other liabilities	127,362	-	438,412	1,885,509	2,451,283
TOTAL LIABILITIES	3,137,225	-	18,891,494	22,566,256	44,594,975

27 RISK MANAGEMENT (continued)**27.3 MARKET RISK**

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates, currency rates and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

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

27.3.1 Interest rate risk

Interest rate risk is the risk that the fair value of all future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is managed by the treasury department of the Company. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. It is the Group's policy to manage its interest cost using a mix of fixed and variable rate debts. The Group aims to keep a certain portion of its borrowings at variable rates of interest.

The Group is exposed to interest rate risk on its variable interest bearing assets and liabilities (bank deposits and loans).

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the Group's loss based on floating rate financial assets and financial liabilities held at 31 December 2013 and 2011. There is no impact on equity.

The following table demonstrates the sensitivity of the consolidated income statement to reasonably possible changes in interest rates, with all other variables held constant.

	<i>Increase of 25 basis points</i>	
	<i>Effect on loss</i>	
	<i>2013</i>	<i>2012</i>
	<i>KD</i>	<i>KD</i>
KD	(33,997)	(92,941)
US Dollar	(14,298)	(202)

27.3.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk is managed by the treasury department of the Company on the basis of limits determined by the Company's Board of Directors and a continuous assessment of the Group's open positions and current and expected exchange rate movements. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Group does not hedge foreign currency exposures.

The effect on loss due to change in the fair value of monetary assets and liabilities), as a result of change in currency rate by 5%, with all other variables held constant is shown below:

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27 RISK MANAGEMENT (continued)

27.3 MARKET RISK (continued)

27.3.2 Currency risk (continued)

	<i>Effect on profit (loss)</i>	
	<i>2013</i>	<i>2012</i>
	<i>KD</i>	<i>KD</i>
US Dollar	(113,611)	111,115
GCC and the rest of Middle East currencies	23,753	41,221

27.3.3 Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the direct investment department of the Company mainly through diversification of investments in terms of geographical distribution and industry concentration. The majority of the Group's quoted investments are listed on the Kuwait Stock Exchange.

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

Geographical distribution

	<i>Kuwait KD</i>	<i>GCC and the rest of the Middle East KD</i>	<i>International KD</i>	<i>Total KD</i>
31 December 2013				
Financial assets at fair value through profit or loss	4,699,024	2,358,064	1,868,763	8,925,851
Financial assets available for sale	29,394,808	5,521,321	399,938	35,316,067
31 December 2012				
Financial assets at fair value through profit or loss	3,979,927	1,800,102	2,037,466	7,817,495
Financial assets available for sale	34,709,534	6,522,651	494,383	41,726,568

Industry concentration

	<i>Trading and manufacturing KD</i>	<i>Banks and financial institutions KD</i>	<i>Construction and real estate KD</i>	<i>Others KD</i>	<i>Total KD</i>
31 December 2013					
Financial assets at fair value through profit or loss	-	3,073,565	651,778	5,200,508	8,925,851
Financial assets available for sale	1,305,953	17,233,884	6,791,111	9,985,119	35,316,067

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27 RISK MANAGEMENT (continued)

27.3 MARKET RISK (continued)

27.3.3 Equity price risk (continued)

Industry concentration (continued)

	Trading and manufacturing KD	Banks and financial institutions KD	Construction and real estate KD	Others KD	Total KD
31 December 2012					
Financial assets at fair value through profit or loss	-	3,373,416	351,206	4,092,873	7,817,495
Financial assets available for sale	1,305,998	22,042,728	6,851,111	11,526,731	41,726,568

Any percentage change in equity price index of the above financial instruments will have a direct impact on consolidated income or other comprehensive income.

27.4 PREPAYMENT RISK

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

27.5 OPERATIONAL RISK

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risk, the Group is able to manage these risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

28 CAPITAL MANAGEMENT

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

No changes were made in the objectives, policies or processes during the years ended 31 December 2013 and 31 December 2012.

The Group monitors capital using a leverage ratio, which is net debt divided by total capital of the Company. The Group aims to limit its leverage ratio to a maximum of 125%. The Group includes within net debt, interest bearing loans and borrowings and other payables, less bank balances and cash. Total capital represents equity attributable to the shareholders of the Company.

	2013 KD	2012 KD
Interest bearing loans and borrowings	29,138,000	40,000,000
Other liabilities	4,158,044	2,451,283
Less: Bank balances and cash	(5,617,207)	(5,030,291)
Net debt	27,678,837	37,420,992
Equity attributable to the equity holders of the Company	35,834,113	32,367,433
Gearing ratio (%)	77%	116%