Interim condensed consolidated financial information and review report

# Arzan Financial Group for Financing and Investment – KPSC
# and its Subsidiaries
# Kuwait

30 September 2016 (Unaudited)

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# Report on review of interim condensed consolidated financial information

To the board of directors of
Arzan Financial Group for Financing and Investment - KPSC
Kuwait

*Introduction*
We have reviewed the accompanying interim condensed consolidated statement of financial position of Arzan Financial Group for Financing and Investment - KPSC (a Kuwaiti Public Shareholding Company) (the "parent company") and its subsidiaries (together the "group") as at 30 September 2016 and the related interim condensed consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the nine-month period then ended. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

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

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

**Report on review of other legal and regulatory requirements**
Based on our review, the interim condensed consolidated financial information is in agreement with the books of the parent company. We further report that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016 and its executive regulations, or of the Articles of Association and Memorandum of Incorporation of the parent company, as amended, have occurred during the nine-month period ended 30 September 2016 that might have had a material effect on the business or financial position of the parent company, except for the matter discussed in note (1) to the interim condensed consolidated financial information with respect to the separation of the powers of the chief executive officer and the chairman.

We also report that during our review and to the best of our knowledge and belief, nothing has come to our attention that indicates any material violations to Law No. (7) of 2010, as amended, relating to the Capital Markets Authority and the instructions thereto, during the nine-month period ended 30 September 2016.

We further report that, during the course of our review, we have not become aware of any material violations during the nine-month period ended 30 September 2016 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.

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(Licence No. 50-A)
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Ali A. Al-Hasawi
(Licence No. 30-A)
of Rödl Middle East
Burgan – International Accountants

Kuwait
10 November 2016

# Interim condensed consolidated statement of profit or loss

| | Notes | Three months ended 30 Sept. 2016 (Unaudited) KD | Three months ended 30 Sept. 2015 (Unaudited) KD | Nine months ended 30 Sept. 2016 (Unaudited) KD | Nine months ended 30 Sept. 2015 (Unaudited) KD |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Income from instalment credit debtors | | **404,801** | 610,829 | **1,437,641** | 2,372,298 |
| Rental income | | **40,566** | 41,610 | **130,559** | 125,331 |
| Interest income | | **22,386** | 55,858 | **252,382** | 187,870 |
| Profit/(loss) on sale of investments at fair value through profit or loss | | **6,099** | (4,198) | **(36,682)** | 12,169 |
| Change in fair value of investments at fair value through profit or loss | | **190,084** | (710,839) | **(396,045)** | (613,306) |
| Profit/(loss) on sale of available for sale investments | | **17,805** | (293,249) | **16,992** | (389,436) |
| Share of results of associates | 11 | **739,868** | 516,168 | **1,897,194** | 1,128,498 |
| Loss on disposal of subsidiaries | | **-** | (102,494) | **-** | (102,494) |
| Dividend income | | **447,185** | 339,609 | **2,256,368** | 2,243,046 |
| Brokerage income | | **122,800** | 129,759 | **358,094** | 435,028 |
| Advisory fees | | **441,297** | 246,128 | **1,810,669** | 1,373,651 |
| Gain/(loss) on foreign currency exchange | | **107,486** | (14,941) | **(114,983)** | (34,191) |
| Other income | | **101,269** | 52,660 | **408,723** | 255,932 |
| | | **2,641,646** | 866,900 | **8,020,912** | 6,994,396 |
| **Expenses and other charges** | | | | | |
| Staff costs | | **(516,283)** | (538,143) | **(1,912,636)** | (1,950,562) |
| General and administrative expenses | | **(211,771)** | (378,063) | **(903,660)** | (1,511,158) |
| Finance costs | | **(417,295)** | (232,575) | **(1,031,554)** | (747,345) |
| Provision for instalment credit debtors | | **(163,623)** | (262,922) | **(244,439)** | (404,940) |
| Depreciation | | **(70,816)** | (73,930) | **(220,687)** | (213,256) |
| | | **(1,379,788)** | (1,485,633) | **(4,312,976)** | (4,827,261) |
| **Profit/(loss) for the period before provisions for contribution to KFAS, National Labour Support Tax and Zakat** | | **1,261,858** | (618,733) | **3,707,936** | 2,167,135 |
| (Contribution)/reversal to Kuwait Foundation for the Advancement of Sciences (KFAS) | | **(6,809)** | 4,192 | **(15,994)** | (21,543) |
| Provision for National Labour Support Tax | | **(16,114)** | (12,310) | **(60,222)** | (63,222) |
| Provision for Zakat | | **(4,889)** | (2,223) | **(15,729)** | (19,356) |
| **Profit/(loss) for the period** | | **1,234,046** | (629,074) | **3,615,991** | 2,063,014 |
| **Attributable to:** | | | | | |
| Shareholders of the parent company | | **622,093** | (666,989) | **1,988,264** | 1,469,455 |
| Non-controlling interests | | **611,953** | 37,915 | **1,627,727** | 593,559 |
| **Profit/(loss) for the period** | | **1,234,046** | (629,074) | **3,615,991** | 2,063,014 |
| **Basic and diluted earnings/(loss) per share attributable to the shareholders of the parent company (Fils)** | 6 | **0.78** | (0.84) | **2.49** | 1.84 |

*The notes set out on pages 8 to 26 form an integral part of this interim condensed consolidated financial information.*

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

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **30 Sept. 2015 (Unaudited) KD** | 30 Sept. 2014 (Unaudited) KD | **30 Sept. 2015 (Unaudited) KD** | 30 Sept. 2014 (Unaudited) KD |
| Profit/(loss) for the period | **1,234,046** | (629,074) | **3,615,991** | 2,063,014 |
| ***Other comprehensive loss:*** | | | | |
| *Items that will be reclassified subsequently to consolidated statement of profit or loss:* | | | | |
| Exchange differences arising on translation of foreign operations | **(746,858)** | (1,235,078) | **(3,976,003)** | (118,041) |
| Available for sale investments: | | | | |
| - Net change in fair value arising during the period | **(382,707)** | (1,802,084) | **(1,301,687)** | (1,037,417) |
| - Transferred to consolidated statement of profit or loss on sale | **(18,392)** | (177,571) | **(18,392)** | (169,416) |
| **Total other comprehensive loss for the period** | **(1,147,957)** | (3,214,733) | **(5,296,082)** | (1,324,874) |
| **Total comprehensive income/(loss) for the period** | **86,089** | (3,843,807) | **(1,680,091)** | 738,140 |
| **Attributable to:** | | | | |
| Shareholders of the parent company | **195,728** | (3,020,784) | **242,155** | 151,542 |
| Non-controlling interests | **(109,639)** | (823,023) | **(1,922,246)** | 586,598 |
| **Total comprehensive income/(loss) for the period** | **86,089** | (3,843,807) | **(1,680,091)** | 738,140 |

 

# Interim condensed consolidated statement of financial position

| | Notes | 30 Sept. 2016 (Unaudited) KD | 31 Dec. 2015 (Audited) KD | 30 Sept. 2015 (Unaudited) KD |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 7 | **7,798,704** | 7,307,640 | 7,973,439 |
| Instalment credit debtors | 8 | **11,498,684** | 13,494,741 | 14,578,745 |
| Investments at fair value through profit or loss | 9 | **6,467,261** | 6,720,274 | 7,027,031 |
| Accounts receivable and other assets | | **6,583,052** | 6,780,171 | 4,637,304 |
| Due from related parties | 19 | **1,588,298** | 676,801 | 708,092 |
| Properties held for trading | | **1,313,947** | 1,313,947 | 1,313,947 |
| Available for sale investments | 10 | **98,909,532** | 91,573,129 | 89,281,154 |
| Investment in associates | 11 | **48,451,546** | 50,604,203 | 50,766,960 |
| Investment in real estate under development | | **4,315,101** | 4,108,650 | 4,765,920 |
| Investment properties | | **1,787,528** | 1,832,060 | 1,847,060 |
| Property and equipment | | **3,303,658** | 3,396,711 | 3,375,585 |
| **Total assets** | | **192,017,311** | 187,808,327 | 186,275,237 |
| **Liabilities and equity** | | | | |
| **Liabilities** | | | | |
| Due to banks | 12 | **3,069,733** | 1,661,901 | 3,804,163 |
| Accounts payable and other liabilities | | **7,732,396** | 7,814,601 | 7,247,374 |
| Due to related parties | 19 | **124,426** | 295,257 | 262,348 |
| Term loans | 13 | **19,840,000** | 12,770,000 | 5,980,000 |
| Murabaha payable | 14 | **8,455,202** | 10,823,538 | 10,801,338 |
| Provision for employees' end of service benefits | | **837,629** | 805,014 | 812,168 |
| **Total liabilities** | | **40,059,386** | 34,170,311 | 28,907,391 |
| **Equity** | | | | |
| Share capital | | **80,288,257** | 80,288,257 | 80,288,257 |
| Share premium | | **23,803,273** | 27,142,826 | 27,142,826 |
| Treasury shares | 15 | **(559,233)** | (559,233) | (559,233) |
| Legal reserve | | **-** | 375,497 | 375,497 |
| Voluntary reserve | | **-** | 375,497 | 375,497 |
| Foreign currency translation reserve | | **(608,514)** | (182,484) | (98,363) |
| Fair value reserve | | **4,232,591** | 5,552,670 | 977,355 |
| Retained earnings/(accumulated losses) | | **2,035,855** | (4,090,547) | 4,393,154 |
| **Total equity attributable to the shareholders of the parent company** | | **109,192,229** | 108,902,483 | 112,894,990 |
| Non-controlling interests | | **42,765,696** | 44,735,533 | 44,472,856 |
| **Total equity** | | **151,957,925** | 153,638,016 | 157,367,846 |
| **Total liabilities and equity** | | **192,017,311** | 187,808,327 | 186,275,237 |

Jassem Hasan Zainal
Acting Chairman

*The notes set out on pages 8 to 26 form an integral part of this interim condensed consolidated financial information.*

# Interim condensed consolidated statement of changes in equity

| | Equity attributable to the shareholders of the parent company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital KD | Share premium KD | Treasury shares KD | Legal reserve KD | Voluntary reserve KD | Foreign currency translation reserve KD | Fair value reserve KD | (Accumulated losses)/retained earnings KD | Sub-Total KD | Non-controlling interests KD | Total KD |
| **Balance at 1 January 2016 (audited)** | 80,288,257 | 27,142,826 | (559,233) | 375,497 | 375,497 | (182,484) | 5,552,670 | (4,090,547) | 108,902,483 | 44,735,533 | 153,638,016 |
| Write off of accumulated losses (note 16) | - | (3,339,553) | - | (375,497) | (375,497) | - | - | 4,090,547 | - | - | - |
| Effect of change in ownership percentage of a subsidiary (note 22) | - | - | - | - | - | - | - | 47,591 | 47,591 | (47,591) | - |
| Transactions with shareholders | - | (3,339,553) | - | (375,497) | (375,497) | - | - | 4,138,138 | 47,591 | (47,591) | - |
| Profit for the period | - | - | - | - | - | - | - | 1,988,264 | 1,988,264 | 1,627,727 | 3,615,991 |
| ***Other comprehensive loss:*** | | | | | | | | | | | |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | (426,030) | - | - | (426,030) | (3,549,973) | (3,976,003) |
| Available for sale investments: | | | | | | | | | | | |
| - Net change in fair value arising during the period | - | - | - | - | - | - | (1,301,687) | - | (1,301,687) | - | (1,301,687) |
| -Transferred to consolidated statement of profit or loss on sales | - | - | - | - | - | - | (18,392) | - | (18,392) | - | (18,392) |
| Total other comprehensive loss for the period | - | - | - | - | - | (426,030) | (1,320,079) | - | (1,746,109) | (3,549,973) | (5,296,082) |
| Total comprehensive (loss)/income for the period | - | - | - | - | - | (426,030) | (1,320,079) | 1,988,264 | 242,155 | (1,922,246) | (1,680,091) |
| **Balance at 30 September 2016 (unaudited)** | 80,288,257 | 23,803,273 | (559,233) | - | - | (608,514) | 4,232,591 | 2,035,855 | 109,192,229 | 42,765,696 | 151,957,925 |

*The notes set out on pages 8 to 26 form an integral part of this interim condensed consolidated financial information.*

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

| | Equity attributable to the shareholders of the parent company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital KD | Share premium KD | Treasury shares KD | Legal reserve KD | Voluntary reserve KD | Foreign currency translation reserve KD | Fair value reserve KD | Retained earnings KD | Sub-Total KD | Non-controlling interests KD | Total KD |
| **Balance at 1 January 2015 (audited)** | 80,288,257 | 27,142,826 | (557,080) | 375,497 | 375,497 | 12,717 | 2,184,188 | 2,923,699 | 112,745,601 | 43,149,864 | 155,895,465 |
| Purchase of treasury shares | - | - | (2,153) | - | - | - | - | - | (2,153) | - | (2,153) |
| Disposal of partial interests in subsidiaries | - | - | - | - | - | - | - | - | - | 736,394 | 736,394 |
| Transactions with shareholders | - | - | (2,153) | - | - | | - | - | (2,153) | 736,394 | 734,241 |
| Profit for the period | - | - | - | - | - | - | - | 1,469,455 | 1,469,455 | 593,559 | 2,063,014 |
| ***Other comprehensive loss:*** | | | | | | | | | | | |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | (111,080) | - | - | (111,080) | (6,961) | (118,041) |
| Available for sale investments: | | | | | | | | | | | |
| - Net change in fair value arising during the period | - | - | - | - | - | - | (1,037,417) | - | (1,037,417) | - | (1,037,417) |
| - Transferred to consolidated statement of profit or loss on sale | - | - | - | - | - | - | (169,416) | - | (169,416) | - | (169,416) |
| Total other comprehensive loss for the period | - | - | - | - | - | (111,080) | (1,206,833) | - | (1,317,913) | (6,961) | (1,324,874) |
| Total comprehensive (loss)/income for the period | - | - | - | - | - | (111,080) | (1,206,833) | 1,469,455 | 151,542 | 586,598 | 738,140 |
| **Balance at 30 September 2015 (unaudited)** | 80,288,257 | 27,142,826 | (559,233) | 375,497 | 375,497 | (98,363) | 977,355 | 4,393,154 | 112,894,990 | 44,472,856 | 157,367,846 |

*The notes set out on pages 8 to 26 form an integral part of this interim condensed consolidated financial information.*

# Interim condensed consolidated statement of cash flows

| | Notes | Nine months ended 30 Sept. 2016 (Unaudited) | Nine months ended 30 Sept 2015 (Unaudited) |
|---|---|---|---|
| | | KD | KD |
| **OPERATING ACTIVITIES** | | | |
| **Profit for the period** | | 3,615,991 | 2,063,014 |
| **Adjustments:** | | | |
| Interest income | | (252,382) | (187,870) |
| Dividend income | | (2,256,368) | (2,243,046) |
| (Profit)/loss on sale of available for sale investments | | (16,992) | 389,436 |
| Loss on disposal of subsidiaries | | - | 102,494 |
| Share of results of associates | 11 | (1,897,194) | (1,128,498) |
| Provision for instalment credit debtors | | 244,439 | 404,940 |
| Depreciation | | 220,687 | 213,256 |
| Finance costs | | 1,031,554 | 747,345 |
| Provision for employees' end of service benefits | | 197,516 | 155,676 |
| | | 887,251 | 516,747 |
| **Changes in operating assets and liabilities:** | | | |
| Instalment credit debtors | | 1,751,618 | (433,787) |
| Investments at fair value through profit or loss | | 253,013 | (1,386,278) |
| Accounts receivable and other assets | | 197,119 | (602,588) |
| Due from / to related parties | | (1,082,328) | 131,732 |
| Accounts payable and other liabilities | | (82,203) | 127,471 |
| Employees' end of service benefits paid | | (88,645) | (64,940) |
| **Net cash from/(used in) operating activities** | | 1,835,825 | (1,711,643) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment | | - | (389,069) |
| Purchase of available for sale investments | | (25,800,681) | (18,387,926) |
| Proceeds from sale of available for sale investments | | 17,161,190 | 14,554,978 |
| Addition to real estate portfolio under development | | (206,451) | - |
| Dividends income received | | 2,256,368 | 2,243,046 |
| Dividends received from associate | 11 | 1,605,840 | 1,084,813 |
| Interest income received | | 252,382 | 187,870 |
| **Net cash used in investing activities** | | (4,731,352) | (706,288) |
| **FINANCING ACTIVITIES** | | | |
| Net change in due to banks | | 1,407,832 | 1,120,915 |
| Net movement in term loans | | 7,070,000 | (5,680,000) |
| (Repayment of)/proceeds murabaha payable | | (2,368,336) | 5,601,338 |
| Purchase of treasury shares | | - | (2,153) |
| (Payment)/proceeds from acquisition/disposal of partial interests in subsidiaries | | (387,543) | 736,394 |
| Finance costs paid | | (1,031,554) | (747,345) |
| **Net cash from financing activities** | | 4,690,399 | 1,029,149 |
| **Net increase/(decrease) in cash and cash equivalents** | | 1,794,872 | (1,388,782) |
| Foreign currency adjustment | | (1,303,808) | (204,424) |
| Cash and cash equivalents at beginning of the period | 7 | 7,307,640 | 9,566,645 |
| **Cash and cash equivalents at end of the period** | 7 | 7,798,704 | 7,973,439 |
| ***Non-cash transaction*** | | | |
| Investment in real estate under development | | - | 4,765,920 |
| Accounts receivable and other assets | | - | (2,165,920) |
| Investment in associates | | - | (2,600,000) |

# Notes to the interim condensed consolidated financial information

## 1 Incorporation and activities

Arzan Financial Group for Financing and Investment – KPSC (the "parent company") was incorporated in Kuwait on 15 April 1980 in accordance with the Companies Law under the name of International Transport Equipment Company – KSC (Closed). On 14 December 1996 an extraordinary general assembly resolved to change the name of the parent company to International Murabaha Company – KSC (Closed). Later, on 24 April 2002 an extraordinary general assembly resolved to change the name of the parent company to International Finance Company – KPSC and to expand its permitted activities.

The extraordinary general assembly held on 24 July 2013 approved to change the name of the parent company from International Finance Company – KSCC to Arzan Financial Group for Financing and Investment – KPSC which has been registered in the commercial register under No. 29629 on 11 November 2013.

The parent company is listed on the Kuwait Stock Exchange and is governed under the directives of Central Bank of Kuwait and Capital Markets Authority.

The group comprises the parent company and its subsidiaries (together referred as "the group").

The extraordinary general assembly held on 26 June 2015 approved the amendment of the parent company's objectives to become as follows:

- Invest in various economic sectors through the incorporation or participation in the incorporation of various companies or institutions practicing similar or complementary activities to the company's objectives for its account and for the account of third parties inside or outside the State of Kuwait.
- Manage local or foreign various companies and institutions and market the investment services and products owned by them or by third parties inside or outside the State of Kuwait.
- Own and acquire the right of disposal of whatever it deems necessary thereto of movable and immovable property or any parts thereof or any franchising rights the company deems they are necessary or appropriate to the nature of its activity or to the development of its funds, excluding trading in goods for its account.
- Conduct all business related to securities trading for its account and for the account of third parties inside or outside the State of Kuwait, including sale, purchase and marketing of securities of shares and sukuks and other securities issued by local and foreign government and private companies, institutions and bodies and practice the related financial mediation and brokerage activities.
- Manage the funds of individuals and local or foreign public and private companies, institutions and bodies and invest these funds in various economic sectors through investment and real estate portfolios inside or outside the State of Kuwait.
- Provide economic advice related to investment and hold courses, issue brochures of various investment activities for individuals, local and foreign companies and institutions.
- Prepare and provide technical, economic and assessment studies and consultations and prepare feasibility studies for various investment activities and other studies, examining the technical, financial and administrative aspects related to these activities for its account or for the account of third parties inside or outside the State of Kuwait.

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

## 1 Incorporation and activities (continued)

- Establish and manage the collective investment systems and local and foreign investment funds of all kinds and contribute to their establishment for the account of the company and for the account of third parties in accordance with the regulating laws, rules and conditions specified by the competent regulatory authorities; put its stakes or units to subscription so that the company's contributions to the share capital of the collective investment system or the investment fund shall not be less than the minimum limit specified by the regulatory authorities; sell or purchase stakes or units in the local or foreign collective investment systems or investment funds for its account and for the account of third parties or market same, provided the necessary approvals are obtained from the competent regulatory authorities; act as investment custodian, investment monitor and investment advisor in general for the investment funds inside or outside the State of Kuwait in accordance with the regulating laws.
- Invest funds for its account and for the account of third parties in the various aspects of investment inside or outside the State of Kuwait and acquire movable and immovable assets.
- Act as the issuance manager for the securities issued by the local and foreign government and private companies, institutions and bodies and act as the subscription agent, listing advisor, investment custodian and monitor, including publications management and commitments of subscription operations management, receiving applications and covering subscription thereto.
- Perform all advisory services that help develop and strengthen the ability of financial and monetary market in the State of Kuwait and meet its requirements within the limits of the law and the decisions or instructions issued by the competent regulatory authorities (after obtaining the necessary approvals from those authorities), provided this does not result in granting funding by the company in any way.
- Mediate in financing operations, structure and manage the financing arrangements of the local and international companies, institutions, bodies and projects in the various economic sectors in accordance with the rules and conditions specified by the competent regulatory authorities.
- Carry out all the works related to the activities for the arrangement and management of consolidation, acquisition and separation operations for the local and foreign government and private companies, institutions and bodies.
- Trade in transportation means and related heavy equipment.
- Finance the purchases of capital goods, durable and non-durable goods.
- Lease capital and durable goods.
- Grant short and medium term loans to natural and judicial persons.
- Perform real estate investment operations aiming at the management and development of residential lands and building of residential and commercial units and complexes for the purpose of selling them in cash or on installments or leasing same.
- Manage all kinds of financial portfolios, invest and develop funds by employing them locally and internationally for the account of the company or for the account of its clients, in addition to lending and borrowing operations.

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

## 1 Incorporation and activities (continued)

- Mediate in the operations of lending, borrowing, brokerage and warrantees against commission or pay.
- Finance and mediate in international and local trade operations.
- Manage and create mutual investment funds according to the law and after approval by the competent authorities.
- Mediate in investment in the international instruments and securities.
- Invest in real estate, industrial and agricultural sectors and other economic sectors, whether directly or through contribution to the incorporation of specialized companies or purchase of the shares of these companies.
- Sell and purchase foreign currencies and trade in precious metals only for the account of the company.
- Conduct researches and studies for private and public real estate projects and for the employment of funds for its account or for the account of third parties.
- Trade in securities such as shares and investment certificates and the like.

The company may have an interest or participate in any aspect with the companies, institutions and bodies performing similar works or which might assist it in the achievement of its objectives in Kuwait or abroad. The company may also open branches inside and outside the State of Kuwait in such a way that does not contradict with the company's law and the instructions of the competent regulatory authorities.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 which cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 November 2012. The new Executive Regulations of Law No. 1 of 2016 was issued on 12 July 2016 and was published in the Official Gazette on 17 July 2016 which cancelled the Executive Regulations of Law No. 25 of 2012.

On 30 June 2016, the parent company's board of directors held a meeting and decided to separate the powers of the chief executive officer and the chairman of the company in accordance with the Companies Law requirements. The company is in the process to elect a chairman and vice chairman and until then, Mr. Jassem Hasan Zainal will be acting chairman of the company.

The address of the parent company's registered office is PO Box 26442, Safat 13125, State of Kuwait.

The parent company's board of directors approved this interim condensed consolidated financial information for issue on 10 November 2016.

## 2 Basis of presentation

The interim condensed consolidated financial information of the group for the nine-month period ended 30 September 2016 has been prepared in accordance with IAS 34, "Interim Financial Reporting", except for regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait (CBK) as noted below.

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

## 2 Basis of presentation (continued)

These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective impairment provision, which has been replaced by the CBK's requirement for a minimum general provision. The impairment provision for loans and advances complies in all material respects with the specific provision requirements of the CBK and IFRS. According to the CBK requirements the basis of making general provisions on facilities at the rate of 1% for cash facilities and 0.5% for non cash facilities.

The accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those used in preparation of audited consolidated financial statements for the year ended 31 December 2015, except for adoption of relevant new standards, amendments to certain standards and interpretations discussed below.

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

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

Operating results for the interim period are not indicative of the results that may be expected for the year ending 31 December 2016. For further details, refer to the consolidated financial statements and their related disclosures for the year ended 31 December 2015.

## 3 Changes in accounting policies

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

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2016. Information on these new standards is presented below:

| *Standard or Interpretation* | *Effective for annual periods beginning* |
|---|---|
| IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments | No stated date |
| IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments | 1 January 2016 |
| IAS 1 'Disclosure Initiative - Amendments | 1 January 2016 |
| IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments | 1 January 2016 |
| IAS 27 Equity Method in Separate Financial Statements - Amendments | 1 January 2016 |
| IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments | 1 January 2016 |
| Annual Improvements to IFRSs 2012–2014 Cycle | 1 January 2016 |

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

## 3 Changes in accounting policies (continued)

### 3.1 New and amended standards adopted by the group (continued)

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

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

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

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

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

***IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments***

Amendments to IFRS 11 Joint Arrangements require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. It also requires disclosure of the information required by IFRS 3 and other IFRSs for business combinations.

The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). The amendments apply prospectively to acquisitions of interests in joint operations.

***IAS 1 Disclosure Initiative – Amendments***

The Amendments to IAS 1 make the following changes:

- *Materiality*: The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.

- *Statement of financial position and statement of profit or loss and other comprehensive income*: The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

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

## 3 Changes in accounting policies (continued)

### 3.1 New and amended standards adopted by the group (continued)

***IAS 1 Disclosure Initiative – Amendments (continued)***

- *Notes*: The amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

***IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments***

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets address the following matters:

- a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment
- an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is generally inappropriate except for limited circumstances
- expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

***IAS 27 Equity Method in Separate Financial Statements - Amendments***

The Amendments to IAS 27 Separate Financial Statements permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

***IFRS 10, IFRS 12 and IAS 28 'Investment Entities: Applying the Consolidation Exception - Amendments***

The Amendments are aimed at clarifying the following aspects:

- *Exemption from preparing consolidated financial statements*. The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.

- *A subsidiary providing services that relate to the parent's investment activities*. A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.

- *Application of the equity method by a non-investment entity investor to an investment entity investee*. When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.

- *Disclosures required*. An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

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

## 3 Changes in accounting policies (continued)

### 3.1 New and amended standards adopted by the group (continued)

***Annual Improvements to IFRSs 2012–2014 Cycle***

(i) *Amendments to* IFRS 5 - Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued

(ii) *Amendments to IFRS 7* - Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements

(iii) *Amendments to IAS 19* - Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid

(iv) *Amendments to IAS 34* - Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference

### 3.2 IASB Standards issued but not yet effective

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

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

| *Standard or Interpretation* | *Effective for annual periods beginning* |
| --- | --- |
| IAS 12 Income Taxes - Amendments | 1 January 2017 |
| IFRS 9 Financial Instruments: Classification and Measurement | 1 January 2018 |
| IFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 16 Leases | 1 January 2019 |

***IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments***

The Amendments to IAS 12 make the following changes:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type

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

## 3 Changes in accounting policies (continued)

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

***IFRS 9 Financial Instruments***

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

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

- the classification and measurement of the group's financial assets will need to be reviewed based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed
- an expected credit loss-based impairment will need to be recognised on the group's trade receivables and investments in debt-type assets currently classified as available for sale and held-to-maturity, unless classified as at fair value through profit or loss in accordance with the new criteria
- it will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be presented in profit or loss unless the group makes an irrevocable designation to present them in other comprehensive income. This will affect the group's investment amounting to KD41,947,023 (see note 10) if still held on 1 January 2018
- if the group continues to elect the fair value option for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to the group's own credit risk.

***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 replaced IAS 18 "Revenues", IAS 11 "Construction Contract" and several revenue – related Interpretations and provides a new control-based revenue recognition model using five-step approach to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard includes important guidance, such as

- Contracts involving the delivery of two or more goods or services – when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts
- timing – whether revenue is required to be recognized over time or at a single point in time
- variable pricing and credit risk – addressing how to treat arrangements with variable or contingent (e.g. performance-based) pricing, and introducing an overall constraint on revenue
- time value – when to adjust a contract price for a financing component

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

## 3 Changes in accounting policies (continued)

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

*IFRS 15 Revenue from Contracts with Customers (continued)*

- specific issues, including –
  - o non-cash consideration and asset exchanges
  - o contract costs
  - o rights of return and other customer options
  - o supplier repurchase options
  - o warranties
  - o principal versus agent
  - o licencing
  - o breakage
  - o non-refundable upfront fees, and
  - o consignment and bill-and-hold arrangements.

*IFRS 16 Leases*

The new Standard requires lessees to account for leases 'on-balance sheet' by recognising a 'right of use' asset and a lease liability. It will affect most companies that report under IFRS and are involved in leasing, and will have a substantial impact on the financial statements of lessees of property and high value equipment. For many other businesses, however, exemptions for short-term leases and leases of low value assets will reduce the impact.

## 4 Judgement and estimates

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

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual audited consolidated financial statements as at and for the year ended 31 December 2015.

## 5 Establishment of subsidiary

During the period, the group established a new subsidiary under the name of Arzan Capital Holding Limited in the United Arab Emirates with a paid up share capital of USD 1,000,000 (equivalent to KD302,675) representing 100% ownership interest in the subsidiary.

Upto the reporting date, the subsidiary did not commence its operations.

## 6 Basic and diluted earnings/(loss) per share attributable to the shareholders of the parent company

Basic and diluted earnings/(loss) per share is computed by dividing the profit/(loss) for the period attributable to the shareholders of the parent company by the weighted average number of shares outstanding during the period less treasury shares.

The parent company had no outstanding dilutive shares.

 

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

## 6 Basic and diluted earnings/(loss) per share attributable to the shareholders of the parent company (continued)

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **30 Sept. 2016 (Unaudited)** | 30 Sept. 2015 (Unaudited) | **30 Sept. 2016 (Unaudited)** | 30 Sept 2015 (Unaudited) |
| Profit/(loss) for the period attributable to the shareholders of the parent company – KD | **622,093** | (666,989) | **1,988,264** | 1,469,455 |
| Weighted average number of shares outstanding during the period (excluding treasury shares) – share | **796,798,664** | 796,801,968 | **796,798,664** | 796,833,259 |
| **Basic and diluted earnings/(loss) per share attributable to the shareholders of the parent company (Fils)** | **0.78** | (0.84) | **2.49** | 1.84 |

## 7 Cash and cash equivalents

| | **30 Sept. 2016 (Unaudited) KD** | 31 Dec. 2015 (Audited) KD | 30 Sept. 2015 (Unaudited) KD |
|---|---|---|---|
| Cash and bank balances | **4,284,964** | 3,755,890 | 5,262,307 |
| Term deposits – 1 to 3 months | **3,513,740** | 3,551,750 | 2,711,132 |
| | **7,798,704** | 7,307,640 | 7,973,439 |

The term deposits carry effective interest rate of 1.35% (31 December 2015: 1.35% and 30 September 2015: 1.75%) per annum.

## 8 Instalment credit debtors

| | **30 Sept. 2016 (Unaudited) KD** | 31 Dec. 2015 (Audited) KD | 30 Sept. 2015 (Unaudited) KD |
|---|---|---|---|
| Gross instalment credit debtors | **14,864,808** | 16,725,069 | 17,735,458 |
| Deferred income | **(1,558,986)** | (1,649,111) | (1,732,569) |
| | **13,305,822** | 15,075,958 | 16,002,889 |
| Specific provision for doubtful debts | **(1,618,432)** | (1,361,267) | (1,181,633) |
| General provision for doubtful debts | **(188,706)** | (219,950) | (242,511) |
| | **11,498,684** | 13,494,741 | 14,578,745 |

Gross instalment credit debtors are due as follows:

| | **30 Sept. 2016 (Unaudited) KD** | 31 Dec. 2015 (Audited) KD | 30 Sept. 2015 (Unaudited) KD |
|---|---|---|---|
| Within one year | **6,754,902** | 7,944,698 | 8,104,043 |
| More than a year | **8,109,906** | 8,780,371 | 9,631,415 |
| | **14,864,808** | 16,725,069 | 17,735,458 |

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

## 8 Instalment credit debtors (continued)

The effective annual interest rate earned on instalment credit debtors ranged from 2.5% to 8% per annum (31 December 2015: 2.5% to 8% and 30 September 2015: 2.5% to 8%).

The provision for doubtful debts is in agreement, in all material respect, with the specific provision requirements of the Central Bank of Kuwait and IFRS. Furthermore, a general provision of 1% on instalment credit balances, where no specific provision is made, is taken in accordance with the instructions of the Central Bank of Kuwait.

Included within the gross installment credit debtors is an amount of KD302,423. (31 December 2015: KD309,996 and 30 September 2015: KD305,412) in respect of related parties (note 19). This amount is secured by way of pledge of certain local and foreign shares.

## 9 Investments at fair value through profit or loss

| | 30 Sept. 2016 (Unaudited) KD | 31 Dec. 2015 (Audited) KD | 30 Sept. 2015 (Unaudited) KD |
|---|---|---|---|
| Local quoted shares | **784,157** | 1,763,523 | 1,989,003 |
| Foreign quoted shares | **85,199** | 69,040 | 69,602 |
| Investment in managed portfolios | **5,597,905** | 4,887,711 | 4,968,426 |
| | **6,467,261** | 6,720,274 | 7,027,031 |

An investment portfolio with a carrying value of KD5,597,905 (31 December 2015: KD4,887,711 and 30 September 2015: KD4,968,426) is pledged against term loans (note 13).

## 10 Available for sale investments

| | 30 Sept. 2016 (Unaudited) KD | 31 Dec. 2015 (Audited) KD | 30 Sept. 2015 (Unaudited) KD |
|---|---|---|---|
| Local quoted shares | **5,527,319** | 26,030,807 | 25,798,739 |
| Local unquoted shares | **8,926,157** | 8,926,157 | 10,095,927 |
| Foreign unquoted shares | **53,046,457** | 44,346,229 | 39,160,813 |
| Investment in managed portfolios | **31,200,988** | 12,003,303 | 13,959,008 |
| Investment funds | **208,611** | 266,633 | 266,667 |
| | **98,909,532** | 91,573,129 | 89,281,154 |

The unquoted investments include investments with a carrying value of KD41,947,023. (31 December 2015: KD33,246,800 and 30 September 2015: KD28,425,092) stated at cost due to unavailability of reliable sources to determine their fair values. Management studies and cash flow expectations for these investments do not indicate any impairment for these investments.

Quoted and unquoted local shares and investment in managed portfolios with an aggregate carrying value of KD24,778,200 (31 December 2015: KD24,893,195 and 30 September 2015: KD28,308,895) are pledged against due to banks, term loans and murabaha payable (notes 12, 13 and 14).

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

## 11 Investment in associates

Below is the movement in the investment in associates during the period/year:

| | 30 Sept. 2016 (Unaudited) KD | 31 Dec. 2015 (Audited) KD | 30 Sept. 2015 (Unaudited) KD |
|---|---|---|---|
| At 1 January | 50,604,203 | 53,143,043 | 53,143,043 |
| Disposals | - | (2,600,000) | (2,600,000) |
| Share of results | 1,897,194 | 1,377,871 | 1,128,498 |
| Reduction of an associate's capital | (245,001) | (340,357) | (257,771) |
| Dividends from associates | (1,605,840) | (1,596,731) | (1,084,813) |
| Foreign currency translation of foreign associates | (2,199,010) | 620,377 | 438,003 |
| | 48,451,546 | 50,604,203 | 50,766,960 |

Investment in associate with a carrying value of KD7,214,520 (31 December 2015: KD7,319,757 and 30 September 2015: KD7,257,732 ) is pledged against term loans (note13).

## 12 Due to banks

This represents credit facilities granted to the group from local and foreign banks in the form of overdraft facilities. The credit facilities carry interest rate of 2.35% to 3.9% per annum (31 December 2015: 2.35% to 3.90% per annum and 30 September 2015: 4.5% per annum) and payable on demand. Credit facilities are granted against pledge of certain available for sale investments (note 10).

## 13 Term loans

Term loans are repayable to local and foreign banks in different periods and bear interest at annual rates ranging from 4.75% to 5.25% (31 December 2015: 4.75% to 5.25% and 30 September 2015: 4.5% to 5.5%).

Loans are repayable as follows:

| | 30 Sept. 2016 (Unaudited) KD | 31 Dec. 2015 (Audited) KD | 30 Sept. 2015 (Unaudited) KD |
|---|---|---|---|
| Within one year | 7,240,000 | 4,290,000 | 2,293,476 |
| After one year | 12,600,000 | 8,480,000 | 3,686,524 |
| | 19,840,000 | 12,770,000 | 5,980,000 |

Loans are secured by the pledge of investments at fair value through profit or loss, available for sale investments and investment in associates (notes 9, 10 and 11) and payable in various instalments ending in September 2020.

## 14 Murabaha payable

This represents Islamic financing obtained from financial institutions, carrying an effective profit rate of 3% to 5.25% (31 December 2015: 3% to 5.25% and 30 September 2015: 5.00%). This financing is secured by way of mortgage of certain available for sale investments (note 10), investment properties and property and equipment and payable in various instalments ending in June 2020.

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

## 14 Murabaha payable (continued)

Murabaha payable is due as follows:

| | 30 Sept. 2016 (Unaudited) KD | 31 Dec. 2015 (Audited) KD | 30 Sept. 2015 (Unaudited) KD |
|---|---|---|---|
| Within one year | **2,770,319** | 2,770,320 | 2,334,040 |
| After one year | **5,684,883** | 8,053,218 | 8,467,298 |
| | **8,455,202** | 10,823,538 | 10,801,338 |

## 15 Treasury shares

| | 30 Sept. 2016 (Unaudited) KD | 31 Dec. 2015 (Audited) KD | 30 Sept. 2015 (Unaudited) KD |
|---|---|---|---|
| Number of treasury shares | **6,083,892** | 6,083,892 | 6,083,892 |
| Percentage of ownership | **0.758%** | 0.758% | 0.758% |
| Market value (KD) | **185,559** | 234,230 | 234,230 |
| Cost (KD) | **559,233** | 559,233 | 559,233 |

Reserves of the parent company equivalent to the cost of the treasury shares have been earmarked as non-distributable, and the treasury shares are not secured.

## 16 Annual general assembly

The Annual General Assembly of the shareholders of the parent company held on 9 June 2016 approved the consolidated financial statements for the year ended 31 December 2015 without dividend.

Also, the Extraordinary General Assembly of the parent company held on 9 June 2016 approved to write off accumulated losses of KD4,090,547 as at 31 December 2015 by using legal reserve of KD375,497, voluntary reserve of KD375,497 and share premium of KD3,339,553.

## 17 Fiduciary accounts

Investment portfolios managed by the group and assets held in trust or in a fiduciary capacity and related liabilities are not treated as the group's assets or liabilities and accordingly are not included in the interim condensed consolidated financial position. Total fiduciary assets as at the financial position date were KD4,370,844 (31 December 2015: KD3,646,123 and 30 September 2015: KD3,887,774).

## 18 Segmental information

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

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

## 18 Segmental information (continued)

The group's principal trading activities are carried out within the State of Kuwait and all of the group's assets and liabilities are located in Kuwait in addition to GCC, Middle East and other countries. The group operates in four business segments; instalment credit, investments, financial brokerage and real estate. The segmental analysis of total revenues, profit for the period, total assets and total liabilities for the business segments are as follows

| | Instalment credit KD | Investments KD | Financial brokerage KD | Real estate KD | Total KD |
|---|---|---|---|---|---|
| **Nine months ended 30 September 2016** | | | | | |
| Total revenues | **1,730,488** | **5,962,848** | **197,017** | **130,559** | **8,020,912** |
| (Loss)/profit for the period | **(417,308)** | **4,133,253** | **(184,484)** | **84,530** | **3,615,991** |
| **Three months ended 30 September 2016** | | | | | |
| Total revenues | **435,470** | **2,084,121** | **81,489** | **40,566** | **2,641,646** |
| Profit for the period | **(222,070)** | **1,433,123** | **6,914** | **16,079** | **1,234,046** |
| **As at 30 September 2016** | | | | | |
| Total assets | **20,957,870** | **146,447,036** | **14,595,829** | **10,016,576** | **192,017,311** |
| Total liabilities | **19,604,294** | **19,079,697** | **1,375,395** | **-** | **40,059,386** |
| Net assets | **1,353,576** | **127,367,339** | **13,220,434** | **10,016,576** | **151,957,925** |
| **Nine months ended 30 September 2015** | | | | | |
| Total revenues | 2,556,304 | 4,054,895 | 257,866 | 125,331 | 6,994,396 |
| Profit/(loss) for the period | 34,470 | 2,077,490 | (128,347) | 79,401 | 2,063,014 |
| **Three months ended 30 September 2015** | | | | | |
| Total revenues | 653,355 | 83,910 | 88,025 | 41,610 | 866,900 |
| (Loss)/profit for the period | (299,442) | (346,230) | (9,894) | 26,492 | (629,074) |
| **As at 30 September 2015** | | | | | |
| Total assets | 22,453,047 | 137,846,666 | 15,448,597 | 10,526,927 | 186,275,237 |
| Total liabilities | 14,180,610 | 12,824,877 | 1,901,904 | - | 28,907,391 |
| Net assets | 8,272,437 | 125,021,789 | 13,546,693 | 10,526,927 | 157,367,846 |

## 19 Related parties balances and transactions

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

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

## 19 Related parties balances and transactions (continued)

Details of significant related parties balances and transactions are as follows:

| | 30 Sept. 2016 (Unaudited) KD | 31 Dec. 2015 (Audited) KD | 30 Sept. 2015 (Unaudited) KD |
|---|---|---|---|
| **Interim condensed consolidated statement of financial position** | | | |
| Instalment credit debtors-gross (note 8) | **302,423** | 309,996 | 305,412 |
| Due from related parties | **1,588,298** | 676,801 | 708,092 |
| Due to shareholders (included in accounts payable and other liabilities) | **213,065** | 224,030 | 224,030 |
| Due to related parties | **124,426** | 295,257 | 262,348 |

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **30 Sept. 2016 (Unaudited) KD** | 30 Sept. 2015 (Unaudited) KD | **30 Sept. 2016 (Unaudited) KD** | 30 Sept. 2015 (Unaudited) KD |
| **Interim condensed consolidated statement of profit or loss** | | | | |
| Income from instalment credit debtors | **4,678** | 6,007 | **14,057** | 27,002 |
| ***Key management compensation:*** | | | | |
| Salaries and other short term benefits | **91,957** | 104,125 | **365,478** | 403,441 |
| End of service benefits | **9,405** | 13,401 | **29,013** | 47,300 |

## 20 Fair value measurement

### 20.1 Fair value hierarchy

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

## 20 Fair value measurement (continued)

### 20.1 Fair value hierarchy (continued)

The carrying amounts of the group's financial assets and liabilities as stated in the interim condensed consolidated statement of financial position are as follows:

| | 30 Sept. 2016 (Unaudited) KD | 31 Dec. 2015 (Audited) KD | 30 Sept. 2015 (Unaudited) KD |
|---|---|---|---|
| **Financial assets:** | | | |
| ***Loans and receivables at amortised cost:*** | | | |
| Cash and cash equivalents | **7,798,704** | 7,307,640 | 7,973,439 |
| Instalment credit debtors | **11,498,684** | 13,494,741 | 14,578,745 |
| Accounts receivable and other assets | **6,583,052** | 6,780,171 | 4,637,304 |
| Due from related parties | **1,588,298** | 676,801 | 708,092 |
| ***Investments at fair value through profit or loss:*** | | | |
| Investments at fair value through profit or loss – at fair value | **6,467,261** | 6,720,274 | 7,027,031 |
| ***Available for sale investments:*** | | | |
| Available for sale investments – at fair value | **56,962,509** | 58,326,329 | 60,856,062 |
| Available for sale investments – at cost | **41,947,023** | 33,246,800 | 28,425,092 |
| **Total** | **132,845,531** | 126,552,756 | 124,205,765 |
| **Financial liabilities:** | | | |
| ***Financial liabilities at amortised cost:*** | | | |
| Due to banks | **3,069,733** | 1,661,901 | 3,804,163 |
| Accounts payable and other liabilities | **7,732,396** | 7,814,601 | 7,247,374 |
| Due to related parties | **124,426** | 295,257 | 262,348 |
| Term loans | **19,840,000** | 12,770,000 | 5,980,000 |
| Murabaha payable | **8,455,202** | 10,823,538 | 10,801,338 |
| Provision for employees' end of service benefits | **837,629** | 805,014 | 812,168 |
| **Total** | **40,059,386** | 34,170,311 | 28,907,391 |

Management considers that the carrying amounts of loans and receivable and all financial liabilities, which are stated at amortised cost, approximate their fair values.

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

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

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

## 20 Fair value measurement (continued)

### 20.1 Fair value hierarchy (continued)

30 September 2016 (Unaudited)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | KD | KD | KD | KD |
| *Investments at fair value through profit or loss:* | | | | |
| Local quoted shares | **784,156** | **-** | **-** | **784,156** |
| Foreign quoted shares | **85,199** | **-** | **-** | **85,199** |
| Investment in managed portfolios | **5,597,905** | **-** | **-** | **5,597,905** |
| *Available for sale investments:* | | | | |
| Local quoted shares | **5,527,324** | **-** | **-** | **5,527,324** |
| Local unquoted shares | **-** | **-** | **8,304,201** | **8,304,201** |
| Foreign unquoted shares | **-** | **-** | **11,721,385** | **11,721,385** |
| Investment in managed portfolios | **20,609,988** | **-** | **10,591,000** | **31,200,988** |
| Investment funds | **-** | **208,611** | **-** | **208,611** |
| | **32,604,572** | **208,611** | **30,616,586** | **63,429,769** |

31 December 2015 (Audited)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | KD | KD | KD | KD |
| Investments at fair value through profit or loss: | | | | |
| Local quoted shares | 1,763,523 | - | - | 1,763,523 |
| Foreign quoted shares | 69,040 | - | - | 69,040 |
| Investment in managed portfolios | 4,887,711 | - | - | 4,887,711 |
| Available for sale investments: | | | | |
| Local quoted shares | 26,030,807 | - | - | 26,030,807 |
| Local unquoted shares | - | - | 8,304,201 | 8,304,201 |
| Foreign unquoted shares | - | - | 11,721,385 | 11,721,385 |
| Investment in managed portfolios | 1,412,303 | - | 10,591,000 | 12,003,303 |
| Investment funds | - | 266,633 | - | 266,633 |
| | 34,163,384 | 266,633 | 30,616,586 | 65,046,603 |

30 September 2015 (Unaudited)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | KD | KD | KD | KD |
| *Investments at fair value through profit or loss:* | | | | |
| Local quoted shares | 1,989,003 | - | - | 1,989,003 |
| Foreign quoted shares | 69,602 | - | - | 69,602 |
| Investment in managed portfolios | 4,968,426 | - | - | 4,968,426 |
| *Available for sale investments:* | | | | |
| Local quoted shares | 25,798,739 | - | - | 25,798,739 |
| Local unquoted shares | - | - | 9,473,975 | 9,473,975 |
| Foreign unquoted shares | - | - | 11,357,673 | 11,357,673 |
| Investment in managed portfolios | 1,623,608 | - | 12,335,400 | 13,959,008 |
| Investment funds | - | 266,667 | - | 266,667 |
| | 34,449,378 | 266,667 | 33,167,048 | 67,883,093 |

There have been no transfers between levels during the reporting period.

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

## 20 Fair value measurement (continued)

### 20.2 Fair value measurement of financial instruments

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

**a) Quoted securities**
All the listed equity securities are publicly traded on a recognized stock exchange. Fair value has been determined by referring to their quoted bid prices at the reporting date.

**b) Managed funds**
The underlying investments of managed funds primarily comprise of quoted and unquoted securities. The fair value of the quoted underlying securities has been determined by reference to their quoted bid prices at the reporting date. The fair value of the unquoted underlying securities has been determined using valuation techniques that are normally used by fund managers. All significant inputs into the model are based on observable market prices

**c) Unquoted securities**
Unlisted securities are measured at fair value estimated using various models like discounted cash flow model, and market multiples which include some assumptions that are not supportable by observable market prices or rates or the latest financial statements or information available on these investments the future financial flows of which are unpredictable.

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

| | 30 Sept. 2016 (Unaudited) KD | 31 Dec. 2015 (Audited) KD | 30 Sept. 2015 (Unaudited) KD |
|---|---|---|---|
| **Opening Balance** | **30,616,586** | 33,290,422 | 33,290,422 |
| - Change in fair value | - | (2,389,810) | 581,986 |
| - Purchases | - | (705,360) | - |
| - Sale | - | 421,334 | (705,360) |
| Closing balance | **30,616,586** | 30,616,586 | 33,167,048 |

Gains or losses recognized in the interim condensed consolidated statement of profit or loss for the period are included in change in fair value of investments at fair value through profit or loss.

Changing inputs to the level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognized in the consolidated statement of profit or loss, total assets, total liabilities or total equity.

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

## 20 Fair value measurement (continued)

### 20.2 Fair value measurement of financial instruments (continued)

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

## 21 Financial risk management

All aspects of the group's financial risk management objectives and policies are consistent with those disclosed in the annual audited consolidated financial statements for the year ended 31 December 2015.

## 22 Change in the group's ownership interest in subsidiary

During the period, the group participated in the capital call to increase the share capital of Hilltop 5 UK Limited. Since the other shareholders did not participate in the increase of the share capital of the investee, the ownership interest of the group increased from 30.89% to 33.50%. This change in ownership resulted in a profit of KD47,591 and is recognised in the shareholders' equity.