

Interim condensed consolidated financial information and review report
Arzan Financial Group for Financing and Investment – KPSC
and its Subsidiaries

Kuwait

30 September 2017 (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 2017 and the related interim condensed consolidated statement of profit or loss, interim condensed consolidated statement of profit or loss and other comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of 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 2017 that might have had a material effect on the business or financial position of the Parent Company.

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 2017.

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 2017 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.

Anwar Y. Al-Qatami, F.C.C.A.
(Licence No. 50-A)
of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Interim condensed consolidated statement of profit or loss

	Notes	Three months ended		Nine months ended	
		30 Sept. 2017 (Unaudited) KD	30 Sept. 2016 (Unaudited) KD	30 Sept. 2017 (Unaudited) KD	30 Sept. 2016 (Unaudited) KD
Revenue					
Income from instalment credit debtors		396,736	404,801	1,206,234	1,437,641
Rental income		52,754	40,566	140,435	130,559
Interest income		278,201	22,386	508,843	252,382
Profit/(loss) on sale of investments at fair value through profit or loss		172,316	6,099	277,476	(36,682)
Change in fair value of investments at fair value through profit or loss		413,475	190,084	621,631	(396,045)
(Loss)/profit on sale of available for sale investments		(99,891)	17,805	(76,392)	16,992
Gain on sale of properties held for trading		-	-	17,440	-
Share of results of associates	11	516,464	739,868	1,284,739	1,897,194
Gain on liquidation of subsidiary	5	32,321	-	32,321	-
Dividend income		61,845	447,185	2,225,561	2,256,368
Brokerage income		48,871	122,800	180,310	358,094
Advisory fees		929,083	441,297	1,664,730	1,810,669
Gain/(loss) on foreign currency exchange		43,303	107,486	72,677	(114,983)
Other income		90,893	101,269	160,661	408,723
		2,936,371	2,641,646	8,316,666	8,020,912
Expenses and other charges					
Staff costs		(698,971)	(516,283)	(1,851,702)	(1,912,636)
General and administrative expenses		(239,533)	(211,771)	(1,185,938)	(903,660)
Finance costs		(530,044)	(417,295)	(1,281,550)	(1,031,554)
Provision for instalment credit debtors		(202,897)	(163,623)	(337,532)	(244,439)
Depreciation		(112,238)	(70,816)	(340,111)	(220,687)
Impairment of available for sale investments		-	-	(68,355)	-
		(1,783,683)	(1,379,788)	(5,065,188)	(4,312,976)
Profit for the period before provisions for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Zakat					
		1,152,688	1,261,858	3,251,478	3,707,936
Provision for KFAS		(1,919)	(6,809)	(5,536)	(15,994)
Provision for NLST		(12,335)	(16,114)	(42,870)	(60,222)
Reversal/(provision) for Zakat		863	(4,889)	-	(15,729)
Profit for the period		1,139,297	1,234,046	3,203,072	3,615,991
Attributable to:					
Shareholders of the parent company		844,701	622,093	2,428,461	1,988,264
Non-controlling interests		294,596	611,953	774,611	1,627,727
Profit for the period		1,139,297	1,234,046	3,203,072	3,615,991
Basic and diluted earnings per share attributable to the shareholders of the parent company (Fils)					
	6	1.06	0.78	3.05	2.49

The notes set out on pages 8 to 25 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. 2017 (Unaudited) KD	30 Sept. 2016 (Unaudited) KD	30 Sept. 2017 (Unaudited) KD	30 Sept. 2016 (Unaudited) KD
Profit for the period	1,139,297	1,234,046	3,203,072	3,615,991
Other comprehensive loss:				
<i>Items that will be reclassified subsequently to consolidated statement of profit or loss:</i>				
Exchange differences arising on translation of foreign operations	172,576	(746,858)	(1,766,612)	(3,976,003)
Available for sale investments:				
- Net change in fair value	4,233,214	(382,707)	11,409,118	(1,301,687)
- Transferred to interim condensed consolidated statement of profit or loss on sale	14,210	(18,392)	14,210	(18,392)
- Transferred to interim condensed consolidated statement of profit or loss on impairment	-	-	68,355	-
Share of other comprehensive income of associates	-	-	108,319	-
Total other comprehensive income/(loss) for the period	4,420,000	(1,147,957)	9,833,390	(5,296,082)
Total comprehensive income/(loss) for the period	5,559,297	86,089	13,036,462	(1,680,091)
Attributable to:				
Shareholders of the parent company	5,206,706	195,728	14,385,966	242,155
Non-controlling interests	352,591	(109,639)	(1,349,504)	(1,922,246)
Total comprehensive income/(loss) for the period	5,559,297	86,089	13,036,462	(1,680,091)

The notes set out on pages 8 to 25 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated statement of financial position

	Notes	30 Sept. 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	30 Sept. 2016 (Unaudited) KD
Assets				
Cash and cash equivalents	7	6,829,193	10,103,929	7,798,704
Instalment credit debtors	8	9,538,360	11,118,653	11,498,684
Investments at fair value through profit or loss	9	8,203,971	6,814,873	6,467,261
Accounts receivable and other assets		6,285,033	5,821,949	6,583,052
Due from related parties	19	1,344,179	1,104,711	1,588,298
Properties held for trading		1,207,304	1,313,947	1,313,947
Available for sale investments	10	114,544,884	98,812,690	98,909,532
Investment in associates	11	45,547,966	47,347,791	48,451,546
Investment in real estate under development		4,203,930	4,180,940	4,315,101
Investment properties		1,753,105	1,772,684	1,787,528
Property and equipment		2,913,918	3,217,772	3,303,658
Total assets		202,371,843	191,609,939	192,017,311
Liabilities and equity				
Liabilities				
Due to banks	12	5,008,267	3,847,752	3,069,733
Accounts payable and other liabilities		10,014,354	7,092,993	7,732,396
Due to related parties	19	354,070	191,888	124,426
Term loans	13	17,290,000	18,730,000	19,840,000
Murabaha payable	14	5,699,896	8,085,878	8,455,202
Provision for employees' end of service benefits		1,032,567	925,579	837,629
Total liabilities		39,399,154	38,874,090	40,059,386
Equity				
Share capital		80,288,257	80,288,257	80,288,257
Share premium		23,803,273	23,803,273	23,803,273
Treasury shares	15	(559,233)	(559,233)	(559,233)
Legal reserve		69,034	69,034	-
Voluntary reserve		69,034	69,034	-
Foreign currency translation reserve		(744,203)	(1,101,706)	(608,514)
Fair value reserve		17,648,359	6,048,357	4,232,591
Retained earnings		3,009,401	580,940	2,035,855
Total equity attributable to the shareholders of the parent company		123,583,922	109,197,956	109,192,229
Non-controlling interests		39,388,767	43,537,893	42,765,696
Total equity		162,972,689	152,735,849	151,957,925
Total liabilities and equity		202,371,843	191,609,939	192,017,311


 Jassem Hasan Zainal
 Vice chairman and CEO

The notes set out on pages 8 to 25 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	Retained earnings KD	Sub-Total KD	Non-controlling interests KD	Total KD
Balance at 1 January 2017 (audited)	80,288,257	23,803,273	(559,233)	69,034	69,034	(1,101,706)	6,048,357	580,940	109,197,956	43,537,893	152,735,849
Liquidation of subsidiary (note 5)	-	-	-	-	-	-	-	-	-	(2,799,622)	(2,799,622)
Transactions with shareholders	-	-	-	-	-	-	-	-	-	(2,799,622)	(2,799,622)
Profit for the period	-	-	-	-	-	-	-	2,428,461	2,428,461	774,611	3,203,072
Other comprehensive income:											
Exchange differences arising on translation of foreign operations	-	-	-	-	-	357,503	-	-	357,503	(2,124,115)	(1,766,612)
Available for sale investments:											
- Net change in fair value arising during the period	-	-	-	-	-	-	11,409,118	-	11,409,118	-	11,409,118
- Transferred to interim condensed consolidated statement of profit or loss on sale	-	-	-	-	-	-	14,210	-	14,210	-	14,210
- Transferred to interim condensed consolidated statement of profit or loss on impairment	-	-	-	-	-	-	68,355	-	68,355	-	68,355
Share of other comprehensive income of associate	-	-	-	-	-	-	108,319	-	108,319	-	108,319
Total other comprehensive income/(loss) for the period	-	-	-	-	-	357,503	11,600,002	-	11,957,505	(2,124,115)	9,833,390
Total comprehensive income/(loss) for the period	-	-	-	-	-	357,503	11,600,002	2,428,461	14,385,966	(1,349,504)	13,036,462
Balance at 30 September 2017 (unaudited)	80,288,257	23,803,273	(559,233)	69,034	69,034	(744,203)	17,648,359	3,009,401	123,583,922	39,388,767	162,972,689

The notes set out on pages 8 to 25 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated statement of cash flows

	Notes	Nine months ended 30 Sept. 2017 (Unaudited) KD	Nine months ended 30 Sept 2016 (Unaudited) KD
OPERATING ACTIVITIES			
Profit for the period		3,203,072	3,615,991
Adjustments:			
Interest income		(508,843)	(252,382)
Dividend income		(2,225,561)	(2,256,368)
Impairment of available for sale investments		68,355	-
Loss/(profit) on sale of available for sale investments		76,392	(16,992)
Gain on sale of properties held for trading		(17,440)	-
Gain on liquidation of subsidiary		(32,321)	-
Share of results of associates	11	(1,284,739)	(1,897,194)
Provision for instalment credit debtors		337,532	244,439
Depreciation		340,311	220,687
Finance costs		1,281,550	1,031,554
Provision for employees' end of service benefits		95,393	197,516
		1,333,701	887,251
Changes in operating assets and liabilities:			
Instalment credit debtors		1,242,761	1,751,618
Investments at fair value through profit or loss		(1,389,098)	253,013
Accounts receivable and other assets		(2,768,524)	197,119
Due from / to related parties		(76,133)	(1,082,328)
Accounts payable and other liabilities		2,783,113	(82,203)
Employees' end of service benefits paid		(9,449)	(88,645)
		1,116,371	1,835,825
INVESTING ACTIVITIES			
Purchase of property and equipment		(13,245)	-
Proceeds from sale of properties held for trading		152,812	-
Purchase of available for sale investments		(4,530,508)	(25,800,681)
Proceeds from sale of available for sale investments		145,253	17,161,190
Proceeds from liquidation of subsidiary		253,775	-
Addition to real estate portfolio under development		(22,990)	(206,451)
Dividends income received		2,225,561	2,256,368
Dividends received from associate	11	862,316	1,605,840
Interest income received		508,843	252,382
		(418,183)	(4,731,352)
FINANCING ACTIVITIES			
Net change in due to banks		1,160,515	1,407,832
Net movement in term loans		(1,440,000)	7,070,000
Repayment of murabaha payable		(2,385,982)	(2,368,336)
Payment from acquisition of partial interests in subsidiaries		-	(387,543)
Finance costs paid		(1,142,943)	(1,031,554)
		(3,808,410)	4,690,399
Net (decrease)/increase in cash and cash equivalents		(3,110,222)	1,794,872
Foreign currency adjustment		(164,514)	(1,303,808)
Cash and cash equivalents at beginning of the period	7	10,103,929	7,307,640
Cash and cash equivalents at end of the period	7	6,829,193	7,798,704

The notes set out on pages 8 to 25 form an integral part of this interim condensed consolidated financial information.

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 Parent Company’s objectives are 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 sukuk 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)

5 Liquidation of subsidiary (continued)

	Six months ended 30 June 2017 KD	Six months ended 30 June 2016 KD
Revenue	73,618	105,562
Expenses	(1,588)	(1,942)
Profit for the period	72,030	103,620

6 Basic and diluted earnings per share attributable to the shareholders of the parent company

Basic and diluted earnings per share is computed by dividing the profit 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.

	Three months ended		Nine months ended	
	30 Sept. 2017 (Unaudited)	30 Sept. 2016 (Unaudited)	30 Sept. 2017 (Unaudited)	30 Sept. 2016 (Unaudited)
Profit for the period attributable to the shareholders of the parent company – KD	844,701	622,093	2,428,461	1,988,264
Weighted average number of shares outstanding during the period (excluding treasury shares) – share	790,798,664	796,798,664	796,798,664	796,798,664
Basic and diluted earnings per share attributable to the shareholders of the parent company (Fils)	1.06	0.78	3.05	2.49

7 Cash and cash equivalents

	30 Sept. 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	30 Sept. 2016 (Unaudited) KD
Cash and bank balances	3,729,308	6,536,799	4,284,964
Term deposits – 1 to 3 months	3,099,885	3,567,130	3,513,740
	6,829,193	10,103,929	7,798,704

The term deposits carry effective interest rate of 1.35% (31 December 2016: 1.35% and 30 September 2016: 1.35%) per annum.

Notes to the interim condensed consolidated financial information (continued)

8 Instalment credit debtors

	30 Sept. 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	30 Sept. 2016 (Unaudited) KD
Gross instalment credit debtors	13,046,476	14,598,812	14,864,808
Deferred income	(1,378,944)	(1,603,010)	(1,558,986)
	11,667,532	12,995,802	13,305,822
Specific provision for doubtful debts	(1,999,543)	(1,682,970)	(1,618,432)
General provision for doubtful debts	(129,629)	(194,179)	(188,706)
	9,538,360	11,118,653	11,498,684

Gross instalment credit debtors are due as follows:

	30 Sept. 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	30 Sept. 2016 (Unaudited) KD
Within one year	3,439,061	4,516,642	6,754,902
More than a year	9,607,415	10,082,170	8,109,906
	13,046,476	14,598,812	14,864,808

The effective annual interest rate earned on instalment credit debtors ranged from 2.5% to 8% per annum (31 December 2016: 2.5% to 8% and 30 September 2016: 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.

The gross installment credit debtors included an amount of KD323,751 (31 December 2016: KD308,514 and 30 September 2016: KD302,423) 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. 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	30 Sept. 2016 (Unaudited) KD
Local quoted shares	861,782	830,399	784,157
Foreign quoted shares	70,909	54,268	85,199
Investment in managed portfolios	7,271,280	5,930,206	5,597,905
	8,203,971	6,814,873	6,467,261

An investment portfolio with a carrying value of KD6,910,943 (31 December 2016: KD5,930,206 and 30 September 2016: KD5,597,905) is pledged against term loans (note 12).

Notes to the interim condensed consolidated financial information (continued)

10 Available for sale investments

	30 Sept. 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	30 Sept. 2016 (Unaudited) KD
Local quoted shares	7,456,414	5,609,999	5,527,319
Local unquoted shares	10,570,743	9,642,221	8,926,157
Foreign unquoted shares	55,358,806	52,032,605	53,046,457
Investment in managed portfolios	40,973,518	31,317,258	31,200,988
Investment funds	185,403	210,607	208,611
	114,544,884	98,812,690	98,909,532

The unquoted investments include investments with a carrying value of KD41,030,304 (31 December 2016: KD37,680,555 and 30 September 2016: KD41,947,023) stated at cost due to unavailability of reliable sources to determine their fair values. Management studies show 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 KD46,987,976 (31 December 2016: KD44,814,770 and 30 September 2016: KD24,778,200) are pledged against due to banks, term loans and murabaha payable (notes 12, 13 and 14).

11 Investment in associates

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

	30 Sept. 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	30 Sept. 2016 (Unaudited) KD
At 1 January	47,347,791	50,604,203	50,604,203
Share of results	1,284,739	2,060,089	1,897,194
Reduction of an associate's capital	(914,062)	(1,958,125)	(245,001)
Dividends from associates	(862,316)	(304,324)	(1,605,840)
Share of other comprehensive income	108,319	-	-
Foreign currency translation of foreign associates	1,250,965	(3,054,052)	(2,199,010)
Disposal of associate - below	(2,667,470)	-	-
	45,547,966	47,347,791	48,451,546

During the period the Group liquidated one of its subsidiaries "Hilltop 1 UK Limited". Consequently, the group lost its significant influence over its associate "Hill Property Investment LP" (note 5)

Investment in associate with a carrying value of KD7,495,241 (31 December 2016: KD7,326,873 and 30 September 2016: KD7,214,520) is pledged against term loans (note 13).

12 Due to banks

This represents outstanding amounts of the credit facilities obtained by the Group from local and foreign banks in the form of overdraft facilities. The credit facilities carry interest rate of 2.35% to 3.90% per annum (31 December 2016: 2.35% to 3.90% per annum and 30 September 2016: 2.35% to 3.90% per annum) above the Central Bank of Kuwait discount rate and payable on demand. Credit facilities are granted against pledge of certain available for sale investments (note 10).

Notes to the interim condensed consolidated financial information (continued)

13 Term loans

Term loans are repayable to local bank in different periods and bear interest at annual rates ranging from 4.75% to 5.75% (31 December 2016: 4.75% to 5.25% and 30 September 2016: 4.75% to 5.25%).

Loans are repayable as follows:

	30 Sept. 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	30 Sept. 2016 (Unaudited) KD
Within one year	3,640,000	7,330,000	7,240,000
After one year	13,650,000	11,400,000	12,600,000
	17,290,000	18,730,000	19,840,000

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 June 2020.

14 Murabaha payable

This represents Islamic financing obtained from local and foreign financial institutions, carrying an effective profit rates of 3% to 5.75% (31 December 2016: 3% to 5.25% and 30 September 2016: 3% to 5.25%) per annum. This financing is secured by way of pledge of certain available for sale investments (note 10), investment properties and property and equipment and payable in various instalments ending in June 2020. Murabaha payable is due as follows:

	30 Sept. 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	30 Sept. 2016 (Unaudited) KD
Within one year	2,759,931	3,304,835	2,770,319
After one year	2,939,965	4,781,043	5,684,883
	5,699,896	8,085,878	8,455,202

15 Treasury shares

	30 Sept. 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	30 Sept. 2016 (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)	206,852	185,559	185,559
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.

Notes to the interim condensed consolidated financial information (continued)

16 Annual general assembly

The Annual General Assembly of the shareholders of the Parent Company held on 19 July 2017 approved the consolidated financial statements for the year ended 31 December 2016 without dividend.

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 KD8,236,661 (31 December 2016: KD5,764,463 and 30 September 2016: KD4,370,844).

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.

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 2017					
Total revenues/(loss)	1,296,506	6,971,579	(109,293)	157,874	8,316,666
(Loss)/profit for the period	(1,476,999)	4,861,406	(309,725)	128,390	3,203,072
Three months ended 30 September 2017					
Total revenues	389,088	2,395,754	81,337	70,192	2,936,371
(Loss)/profit for the period	(641,541)	1,649,273	62,308	69,257	1,139,297
As at 30 September 2017					
Total assets	20,750,130	158,980,266	12,877,108	9,764,339	202,371,843
Total liabilities	11,048,114	27,816,214	534,826	-	39,399,154
Net assets	9,702,016	131,164,052	12,342,282	9,764,339	162,972,689
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
(Loss)/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

Notes to the interim condensed consolidated financial information (continued)

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.

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

	30 Sept. 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	30 Sept. 2016 (Unaudited) KD	
Interim condensed consolidated statement of financial position				
Instalment credit debtors-gross (note 8)	323,751	308,514	302,423	
Due from related parties	1,344,179	1,104,711	1,588,298	
Due to shareholders (included in accounts payable and other liabilities)	213,065	213,065	213,065	
Due to related parties	354,070	191,888	124,426	
<hr/>				
	Three months ended		Nine months ended	
	30 Sept. 2017 (Unaudited) KD	30 Sept. 2016 (Unaudited) KD	30 Sept. 2017 (Unaudited) KD	30 Sept. 2016 (Unaudited) KD
Interim condensed consolidated statement of profit or loss				
Income from instalment credit debtors	11,386	4,678	21,307	14,057
<hr/>				
Key management compensation:				
Salaries and other short term benefits	120,345	91,957	403,037	365,478
End of service benefits	11,623	9,405	34,870	29,013

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 interim condensed 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. 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	30 Sept. 2016 (Unaudited) KD
Financial assets:			
<i>Loans and receivables at amortised cost:</i>			
Cash and cash equivalents	6,829,193	10,103,929	7,798,704
Instalment credit debtors	9,538,360	11,118,653	11,498,684
Accounts receivable and other assets	6,285,033	5,821,949	6,583,052
Due from related parties	1,344,179	1,104,711	1,588,298
<i>Investments at fair value through profit or loss:</i>			
Investments at fair value through profit or loss – at fair value	8,203,971	6,814,873	6,467,261
<i>Available for sale investments:</i>			
Available for sale investments – at fair value	73,514,580	61,132,135	56,962,509
Available for sale investments – at cost	41,030,304	37,680,555	41,947,023
Total	146,745,620	133,776,805	132,845,531
Financial liabilities:			
<i>Financial liabilities at amortised cost:</i>			
Due to banks	5,008,267	3,847,752	3,069,733
Accounts payable and other liabilities	10,014,354	7,092,993	7,732,396
Due to related parties	354,070	191,888	124,426
Term loans	17,290,000	18,730,000	19,840,000
Murabaha payable	5,699,896	8,085,878	8,455,202
Provision for employees' end of service benefits	1,032,567	925,579	837,629
Total	39,399,154	38,874,090	40,059,386

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 interim condensed 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 2017 (Unaudited)

	Level 1	Level 2	Level 3	Total
	KD	KD	KD	KD
<i>Investments at fair value through profit or loss:</i>				
Local quoted shares	861,782	-	-	861,782
Foreign quoted shares	70,909	-	-	70,909
Investment in managed portfolios	7,271,280	-	-	7,271,280
<i>Available for sale investments:</i>				
Local quoted shares	7,456,414	-	-	7,456,414
Local unquoted shares	-	-	10,570,743	10,570,743
Foreign unquoted shares	-	-	14,328,501	14,328,501
Investment in managed portfolios	29,510,318	-	11,463,200	40,973,518
Investment funds	-	185,403	-	185,403
	45,170,703	185,403	36,362,444	81,718,550

31 December 2016 (Audited)

	Level 1	Level 2	Level 3	Total
	KD	KD	KD	KD
<i>Investments at fair value through profit or loss:</i>				
Local quoted shares	830,399	-	-	830,399
Foreign quoted shares	54,268	-	-	54,268
Investment in managed portfolios	5,930,206	-	-	5,930,206
<i>Available for sale investments:</i>				
Local quoted shares	5,609,999	-	-	5,609,999
Local unquoted shares	-	-	9,632,716	9,632,716
Foreign unquoted shares	-	-	14,361,555	14,361,555
Investment in managed portfolios	19,854,058	-	11,463,200	31,317,258
Investment funds	-	210,607	-	210,607
	32,278,930	210,607	35,457,471	67,947,008

30 September 2016 (Unaudited)

	Level 1	Level 2	Level 3	Total
	KD	KD	KD	KD
<i>Investments at fair value through profit or loss:</i>				
Local quoted shares	784,156	-	-	784,156
Foreign quoted shares	85,199	-	-	85,199
Investment in managed portfolios	5,597,905	-	-	5,597,905
<i>Available for sale investments:</i>				
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

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 shares

All the listed equity shares 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 shares

Unquoted shares 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. 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	30 Sept. 2016 (Unaudited) KD
Opening Balance	35,457,471	30,616,586	30,616,586
Additions	904,973	-	-
Change in fair value	-	4,840,885	-
Closing balance	36,362,444	35,457,471	30,616,586

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 interim condensed 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 2016.

22 Subsequent event

Subsequent to the date of the interim condensed consolidated statement of financial position, the Group has liquidated one of its subsidiaries "Hilltop Norway Limited" located in Norway. The Group incurred a loss of KD29,700 on liquidation of this subsidiary.

As at 30 September 2017, the total assets and total liabilities of "Hilltop Norway Limited" amounted to KD7,746,562 and KD481,516, respectively. Also, the net profit for the period amounted to KD323,896. The net assets attributable to the owners of the Parent Company amounted to KD716,334.

The effect of this transaction will be reflected in the consolidated financial statements for the year ending 31 December 2017.