

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

Kuwait

31 March 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 31 March 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 three-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 three-month period ended 31 March 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 three-month period ended 31 March 2017.

We further report that, during the course of our review, we have not become aware of any material violations during the three-month period ended 31 March 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.

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Interim condensed consolidated statement of profit or loss

	Notes	Three months ended 31 March 2017 (Unaudited)	Three months ended 31 March 2016 (Unaudited)
		KD	KD
Revenue			
Income from instalment credit debtors		375,935	545,819
Rental income		38,444	79,168
Interest income		158,205	108,816
Profit/(loss) on sale of investments at fair value through profit or loss		110,890	(38,548)
Change in fair value of investments at fair value through profit or loss		420,340	(454,470)
Profit/(loss) on sale of available for sale investments		21,582	(813)
Share of results of associates	10	(213,279)	763,008
Dividend income		1,030,916	1,021,865
Brokerage income		63,364	94,263
Advisory fees		217,318	590,246
Foreign exchange gain/(loss)		15,016	(92,465)
Other income		49,037	136,432
		2,287,768	2,753,321
Expenses and other charges			
Staff costs		(536,748)	(727,041)
General and administrative expenses		(532,946)	(461,160)
Finance costs		(378,944)	(245,957)
Provision for instalment credit debtors		(51,859)	(48,337)
Depreciation		(116,147)	(74,193)
Impairment of available for sale investments		(68,355)	-
		(1,684,999)	(1,556,688)
Profit for the period before provisions for contribution to KFAS, National Labour Support Tax and Zakat			
		602,769	1,196,633
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(1,476)	-
Provision for National Labour Support Tax (NLST)		(2,734)	(26,140)
Provision for Zakat		-	(1,277)
Profit for the period		598,559	1,169,216
Attributable to:			
Shareholders of the parent company		608,242	631,806
Non-controlling interests		(9,683)	537,410
Profit for the period		598,559	1,169,216
Basic and diluted earnings per share attributable to the shareholders of the parent company (Fils)			
	5	0.763	0.793

The notes set out on pages 8 to 24 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 31 March 2017 (Unaudited) KD	Three months ended 31 March 2016 (Unaudited) KD
Profit for the period	598,559	1,169,216
Other comprehensive income/(loss):		
<i>Items that will be reclassified subsequently to interim condensed consolidated statement of profit or loss:</i>		
Exchange differences arising on translation of foreign operations	321,307	(334,393)
Available for sale investments:		
- Net change in fair value arising during the period	1,210,335	(1,527,462)
- Transferred to interim condensed consolidated statement of profit or loss on impairment	68,355	-
Total other comprehensive income/(loss) for the period	1,599,997	(1,861,855)
Total comprehensive income/(loss) for the period	2,198,556	(692,639)
Attributable to:		
Shareholders of the parent company	1,926,339	(962,765)
Non-controlling interests	272,217	270,126
	2,198,556	(692,639)

The notes set out on pages 8 to 24 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated statement of financial position

	Notes	31 March 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	31 March 2016 (Unaudited) KD
Assets				
Cash and cash equivalents	6	7,639,730	10,103,929	7,443,721
Instalment credit debtors	7	10,464,798	11,118,653	12,930,376
Investments at fair value through profit or loss	8	7,511,091	6,814,873	6,164,647
Accounts receivable and other assets		5,608,171	5,821,949	4,860,505
Due from related parties	18	1,315,811	1,104,711	741,882
Properties held for trading		1,313,947	1,313,947	1,313,947
Available for sale investments	9	103,382,962	98,812,690	94,072,668
Investment in associates	10	46,860,325	47,347,791	50,739,380
Investment in real estate under development		4,180,940	4,180,940	4,108,650
Investment properties		1,757,999	1,772,684	1,817,821
Property and equipment		3,121,389	3,217,772	3,404,991
Total assets		193,157,163	191,609,939	187,598,588
Liabilities and equity				
Liabilities				
Due to banks	11	4,384,966	3,847,752	2,936,541
Accounts payable and other liabilities		7,274,050	7,092,993	7,445,608
Due to related parties	18	84,549	191,888	209,331
Term loans	12	18,420,000	18,730,000	13,360,000
Murabaha payable	13	7,115,154	8,085,878	9,899,135
Provision for employees' end of service benefits		944,039	925,579	802,596
Total liabilities		38,222,758	38,874,090	34,653,211
Equity				
Share capital		80,288,257	80,288,257	80,288,257
Share premium		23,803,273	23,803,273	27,142,826
Treasury shares	14	(559,233)	(559,233)	(559,233)
Legal reserve		69,034	69,034	375,497
Voluntary reserve		69,034	69,034	375,497
Foreign currency translation reserve		(1,062,299)	(1,101,706)	(249,593)
Fair value reserve		7,327,047	6,048,357	4,025,208
Retained earnings/(accumulated losses)		1,189,182	580,940	(3,435,086)
Total equity attributable to the shareholders of the parent company		111,124,295	109,197,956	107,963,373
Non-controlling interests		43,810,110	43,537,893	44,982,004
Total equity		154,934,405	152,735,849	152,945,377
Total liabilities and equity		193,157,163	191,609,939	187,598,588



Jassem Hasan Zainal
Vice chairman and CEO

The notes set out on pages 8 to 24 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
Profit/(loss) for the period	-	-	-	-	-	-	-	608,242	608,242	(9,683)	598,559
Other comprehensive income:											
Exchange differences arising on translation of foreign operations	-	-	-	-	-	39,407	-	-	39,407	281,900	321,307
Available for sale investments:											
- Net change in fair value arising during the period	-	-	-	-	-	-	1,210,335	-	1,210,335	-	1,210,335
- Transferred to interim condensed consolidated statement of profit or loss on impairment	-	-	-	-	-	-	68,355	-	68,355	-	68,355
Total other comprehensive income for the period	-	-	-	-	-	39,407	1,278,690	-	1,318,097	281,900	1,599,997
Total comprehensive income for the period	-	-	-	-	-	39,407	1,278,690	608,242	1,926,339	272,217	2,198,556
Balance at 31 March 2017 (unaudited)	80,288,257	23,803,273	(559,233)	69,034	69,034	(1,062,299)	7,327,047	1,189,182	111,124,295	43,810,110	154,934,405

The notes set out on pages 8 to 24 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/ (accumulated losses) 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
Effect of change in ownership percentage of a subsidiary	-	-	-	-	-	-	-	23,655	23,655	(23,655)	-
Transactions with shareholders	-	-	-	-	-	-	-	23,655	23,655	(23,655)	-
Profit for the period	-	-	-	-	-	-	-	631,806	631,806	537,410	1,169,216
Other comprehensive loss:											
Exchange differences arising on translation of foreign operations Available for sale investments:	-	-	-	-	-	(67,109)	-	-	(67,109)	(267,284)	(334,393)
- Net change in fair value arising during the period	-	-	-	-	-	-	(1,527,462)	-	(1,527,462)	-	(1,527,462)
Total other comprehensive loss for the period	-	-	-	-	-	(67,109)	(1,527,462)	-	(1,594,571)	(267,284)	(1,861,855)
Total comprehensive (loss)/income for the period	-	-	-	-	-	(67,109)	(1,527,462)	631,806	(962,765)	270,126	(692,639)
Balance at 31 March 2016 (unaudited)	80,288,257	27,142,826	(559,233)	375,497	375,497	(249,593)	4,025,208	(3,435,086)	107,963,373	44,982,004	152,945,377

The notes set out on pages 8 to 24 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated statement of cash flows

	Note	Three months ended 31 March 2017 (Unaudited) KD	Three months ended 31 March 2016 (Unaudited) KD
OPERATING ACTIVITIES			
Profit for the period		598,559	1,169,216
Adjustments:			
Interest income		(158,205)	(108,816)
Dividend income		(1,030,916)	(1,021,865)
Impairment of available for sale investments		68,355	-
(Profit)/loss on sale of available for sale investments		(21,582)	813
Share of results of associates		213,279	(763,008)
Provision for instalment credit debtors		51,859	48,337
Finance costs		378,944	245,957
Depreciation		116,147	74,193
Provision for employees' end of service benefits		29,606	71,235
		246,046	(283,938)
Changes in operating assets and liabilities:			
Instalment credit debtors		601,996	516,028
Investments at fair value through profit or loss		(696,218)	555,627
Accounts receivable and other assets		213,778	1,919,666
Due from / to related parties		(318,439)	(151,007)
Accounts payable and other liabilities		181,056	(368,993)
Employees' end of service benefits paid		(11,146)	(73,653)
Net cash from operating activities		217,073	2,113,730
INVESTING ACTIVITIES			
Purchase of available for sale investments		(3,359,939)	(5,177,020)
Proceeds from sale of available for sale investments		21,582	1,149,206
Dividend income received		1,030,916	1,021,865
Dividend from associate		442,355	452,586
Interest income received		158,205	108,816
Net cash used in investing activities		(1,706,881)	(2,444,547)
FINANCING ACTIVITIES			
Net change in due to banks		537,214	1,274,640
Net (decrease)/increase in term loans		(310,000)	590,000
Repayment of murabaha payable		(970,724)	(924,403)
Payments from acquisition of partial interests in subsidiaries		-	(188,734)
Finance costs paid		(378,944)	(245,957)
Net cash (used in)/from financing activities		(1,122,454)	505,546
Net (decrease)/increase in cash and cash equivalents		(2,612,262)	174,729
Foreign currency adjustment		148,063	(38,648)
Cash and cash equivalents at beginning of the period	6	10,103,929	7,307,640
Cash and cash equivalents at end of the period	6	7,639,730	7,443,721

The notes set out on pages 8 to 24 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)

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 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 21 May 2017.

2 Basis of presentation

The interim condensed consolidated financial information of the group for the three-month period ended 31 March 2017 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.

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 2016, except for adoption of relevant new standards, amendments to certain standards and interpretations discussed below.

Notes to the interim condensed consolidated financial information (continued)

2 Basis of presentation (continued)

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 2017. For further details, refer to the consolidated financial statements and their related disclosures for the year ended 31 December 2016.

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 2017 which have been adopted by the Group but did not have any significant impact on the financial position or the results for the period. Information on these new standards is presented below:

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IAS 7 Statement of Cash Flows- Amendments	1 January 2017
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2017

IAS 7 Statement of Cash Flows- Amendments

The Amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and noncash changes)

The Amendments:

- require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgement when determining the exact form and content of the disclosures needed to satisfy this requirement
- suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:
 - changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses
 - a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

Annual Improvements to IFRSs 2014-2016 Cycle

Amendments to IFRS 12 - Clarifies the scope of IFRS 12 by specifying that its disclosure requirements (except for those in IFRS 12. B17) apply to an entity's interests irrespective of whether they are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with IFRS 5.

Notes to the interim condensed consolidated financial information (continued)

3 Changes in accounting policies (continued)

3.2 IASB Standards issued but not yet effective

At the date of authorisation of this interim consolidated 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 consolidated 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 interim consolidated financial information.

Standard or Interpretation

Effective for annual periods beginning

IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments	No stated date
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 40 Investment Property – Amendments	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

IFRS 10 and IAS 28 Sale or Contribution of Assets between 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 a 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 9 Financial Instruments

The IASB published 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.

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 (continued)

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 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 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 an irrevocable designation is made to present them in other comprehensive income.
- if the fair value option continues to be elected for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to 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

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)

- Time value – when to adjust a contract price for a financing component
- Specific issues, including –
 - non-cash consideration and asset exchanges
 - contract costs
 - rights of return and other customer options
 - supplier repurchase options
 - warranties
 - principal versus agent
 - licencing
 - breakage
 - non-refundable upfront fees, and
 - consignment and bill-and-hold arrangements.

IFRS 16 Leases

IFRS 16 will replace IAS 17 and three related Interpretations. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability.

Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, management is in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices
- assessing their current disclosures for finance and operating leases as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets
- determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions
- assessing the additional disclosures that will be required.

IFRS 40 Investment Property - Amendments

The Amendments to IAS 40 clarifies that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterise the list of circumstances appearing in paragraph 57(a)–(d) as a non-exhaustive list of examples of evidence that a change in use has occurred. The Board has also clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.

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)

Annual Improvements to IFRSs 2014-2016 Cycle

Amendments to LAS 28 - Clarifies that a qualifying entity is able to choose between applying the equity method or measuring an investment in an associate or joint venture at fair value through profit or loss, separately for each associate or joint venture at initial recognition of the associate or joint venture. Amendment is effective for annual periods beginning on or after 1 January 2018.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretations looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income. A diversity was observed in practice in circumstances in which an entity recognises a non-monetary liability arising from advance consideration. The diversity resulted from the fact that some entities were recognising revenue using the spot exchange rate at the date of the receipt of the advance consideration while others were using the spot exchange rate at the date that revenue was recognized. IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

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 2016.

5 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 31 March 2017 (Unaudited)	Three months ended 31 March 2016 (Unaudited)
Profit for the period attributable to the shareholders of the parent company – KD	608,242	631,806
Weighted average number of shares outstanding during the period (excluding treasury shares)	796,798,664	796,798,664
Basic and diluted earnings per share attributable to the shareholders of the parent company (Fils)	0.763	0.793

Notes to the interim condensed consolidated financial information (continued)

6 Cash and cash equivalents

	31 March 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	31 March 2016 (Unaudited) KD
Cash and bank balances	4,472,400	6,536,799	4,625,522
Term deposits – 1 to 3 months	3,167,330	3,567,130	2,818,199
	7,639,730	10,103,929	7,443,721

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

7 Instalment credit debtors

	31 March 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	31 March 2016 (Unaudited) KD
Gross instalment credit debtors	13,958,893	14,598,812	16,219,547
Deferred income	(1,574,030)	(1,603,010)	(1,673,535)
	12,384,863	12,995,802	14,546,012
Specific provision for doubtful debts	(1,718,140)	(1,682,970)	(1,393,750)
General provision for doubtful debts	(201,925)	(194,179)	(221,886)
	10,464,798	11,118,653	12,930,376

Gross instalment credit debtors are due as follows:

	31 March 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	31 March 2016 (Unaudited) KD
Within one year	4,183,109	4,516,642	7,519,069
More than a year	9,775,784	10,082,170	8,700,478
	13,958,893	14,598,812	16,219,547

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 31 March 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 KD313,622 (31 December 2016: KD308,514 and 31 March 2016: KD314,685) in respect of related parties (note 18). This amount is secured by way of pledge of certain local and foreign shares.

Notes to the interim condensed consolidated financial information (continued)

8 Investments at fair value through profit or loss

	31 March 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	31 March 2016 (Unaudited) KD
Local quoted shares	905,752	830,399	725,440
Foreign quoted shares	59,339	54,268	63,863
Investment in managed portfolios	6,546,000	5,930,206	5,375,344
	7,511,091	6,814,873	6,164,647

An investment portfolio with a carrying value of KD 6,546,000 (31 December 2016: KD5,930,206 and 31 March 2016: KD4,414,925) is pledged against term loans (note 12).

9 Available for sale investments

	31 March 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	31 March 2016 (Unaudited) KD
Local quoted shares	5,605,792	5,609,999	5,624,338
Local unquoted shares	10,620,600	9,642,221	8,926,156
Foreign unquoted shares	54,036,082	52,032,605	48,374,041
Investment in managed portfolios	32,934,044	31,317,258	30,888,161
Investment funds	186,444	210,607	259,972
	103,382,962	98,812,690	94,072,668

The unquoted investments include investments with a carrying value of KD39,993,759 (31 December 2016: KD37,680,555 and 31 March 2016: KD37,274,609) 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 KD 46,033,994 (31 December 2016: KD44,814,770 and 31 March 2016: KD24,706,811) are pledged against due to banks, term loans and murabaha payable (notes 11, 12 and 13).

10 Investment in associates

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

	31 March 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	31 March 2016 (Unaudited) KD
At 1 January	47,347,791	50,604,203	50,604,203
Share of results	(213,279)	2,060,089	763,008
Reduction of an associate's capital	(668,806)	(1,958,125)	(92,016)
Dividends from associates	(442,355)	(304,324)	(452,586)
Foreign currency translation of foreign associates	836,974	(3,054,052)	(83,229)
	46,860,325	47,347,791	50,739,380

Investment in associate with a carrying value of KD 7,420,753 (31 December 2016: KD7,326,873 and 31 March 2016: KD7,469,976) is pledged against term loans (note12).

Notes to the interim condensed consolidated financial information (continued)

11 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 31 March 2016: 2.35%-3.90% per annum) and payable on demand. Credit facilities are granted against pledge of certain available for sale investments (note 9).

12 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 2016: 4.75% to 5.25% and 31 March 2016: 4.75% to 5.25%).

Loans are repayable as follows:

	31 March 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	31 March 2016 (Unaudited) KD
Within one year	5,620,000	7,330,000	4,460,000
After one year	12,800,000	11,400,000	8,900,000
	18,420,000	18,730,000	13,360,000

Loans are secured by the pledge of investments at fair value through profit or loss, available for sale investments and investment in associates (notes 8, 9 and 10) and payable in various instalments ending in June 2020.

13 Murabaha payable

This represents Islamic financing obtained from local and foreign financial institutions, carrying an effective profit rate of 3% to 5.25% (31 December 2016: 3% to 5.25% and 31 March 2016: 3% to 5.25%) per annum. This financing is secured by way of mortgage of certain available for sale investments (note 9), investment properties and property and equipment and payable in various instalments ending in June 2020.

Murabaha payable is due as follows:

	31 March 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	31 March 2016 (Unaudited) KD
Within one year	2,777,577	3,304,835	3,214,640
After one year	4,337,577	4,781,043	6,684,495
	7,115,154	8,085,878	9,899,135

14 Treasury shares

	31 March 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	31 March 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)	225,104	185,559	186,601
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)

15 Annual general assembly

As of the date of issuance this interim condensed consolidated financial information, the general assembly of shareholders has not been held to approve the consolidated financial statements for the year ended 31 December 2016. The interim condensed consolidated financial information for the three-month period ended 31 March 2017 does not include any adjustments, which might have been required, had the general assembly not approved the consolidated financial statements for the year ended 31 December 2016.

16 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 KD7,521,385 (31 December 2016: KD5,764,463 and 31 March 2016: KD3,561,651).

17 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
Three months ended 31 March 2017					
Total revenues	407,057	2,181,413	(339,146)	38,444	2,287,768
(Loss)/profit for the period	(444,037)	1,479,216	(456,902)	20,282	598,559
As at 31 March 2017					
Total assets	19,130,797	151,497,802	12,675,678	9,852,886	193,157,163
Total liabilities	3,237,260	34,381,399	604,099	-	38,222,758
Net assets	15,893,537	117,116,403	12,071,579	9,852,886	154,934,405
Three months ended 31 March 2016					
Total revenues	666,158	2,000,900	7,095	79,168	2,753,321
(Loss)/profit for the period	(206,862)	1,522,504	(210,576)	64,150	1,169,216
As at 31 March 2016					
Total assets	20,412,472	142,721,749	14,623,948	9,840,419	187,598,588
Total liabilities	11,205,303	21,980,214	1,467,694	-	34,653,211
Net assets	9,207,169	120,741,535	13,156,254	9,840,419	152,945,377

Notes to the interim condensed consolidated financial information (continued)

18 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:

	31 March 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	31 March 2016 (Unaudited) KD
Interim condensed consolidated statement of financial position			
Instalment credit debtors-gross (note 7)	313,622	308,514	314,685
Due from related parties	1,315,811	1,104,711	741,882
Due to shareholders (included in accounts payable and other liabilities)	213,065	213,065	213,065
Due to related parties	84,549	191,888	209,331
<hr/>			
		Three months ended 31 March 2017 (Unaudited) KD	Three months ended 31 March 2016 (Unaudited) KD
Interim condensed consolidated statement of profit or loss			
Income from instalment credit debtors		5,108	19,239
Key management compensation:			
Salaries and other short term benefits		140,709	157,893
End of service benefits		10,967	10,204

19 Fair value measurement

19.1 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)

19 Fair value measurement (continued)

19.1 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:

	31 March 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	31 March 2016 (Unaudited) KD
Financial assets:			
<i>Loans and receivables at amortised cost:</i>			
Cash and cash equivalents	7,639,730	10,103,929	7,443,721
Instalment credit debtors	10,464,798	11,118,653	12,930,376
Accounts receivable and other assets	5,608,171	5,821,949	4,860,505
Due from related parties	1,315,811	1,104,711	741,882
<i>Investments at fair value through profit or loss:</i>			
Investments at fair value through profit or loss – at fair value	7,511,091	6,814,873	6,164,647
<i>Available for sale investments:</i>			
Available for sale investments – at fair value	63,389,203	61,132,135	56,798,059
Available for sale investments – at cost	39,993,759	37,680,555	37,274,609
Total	135,922,563	133,776,805	126,213,799
Financial liabilities:			
<i>Financial liabilities at amortised cost:</i>			
Due to banks	4,384,966	3,847,752	2,936,541
Accounts payable and other liabilities	7,274,050	7,092,993	7,445,608
Due to related parties	84,549	191,888	209,331
Term loans	18,420,000	18,730,000	13,360,000
Murabaha payable	7,115,154	8,085,878	9,899,135
Provision for employees' end of service benefits	944,039	925,579	802,596
Total	38,222,758	38,874,090	34,653,211

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)

19 Fair value measurement (continued)

19.1 Fair value hierarchy (continued)

31 March 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	905,752	-	-	905,752
Foreign quoted shares	59,339	-	-	59,339
Investment in managed portfolios	6,546,000	-	-	6,546,000
<i>Available for sale investments:</i>				
Local quoted shares	5,605,792	-	-	5,605,792
Local unquoted shares	-	-	9,833,808	9,833,808
Foreign unquoted shares	-	-	15,138,842	15,138,842
Investment in managed portfolios	21,161,117	-	11,772,927	32,934,044
Investment funds	-	186,444	-	186,444
	34,278,000	186,444	36,745,577	71,210,021

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

31 March 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	725,440	-	-	725,440
Foreign quoted shares	63,863	-	-	63,863
Investment in managed portfolios	5,375,344	-	-	5,375,344
<i>Available for sale investments:</i>				
Local quoted shares	5,624,338	-	-	5,624,338
Local unquoted shares	-	-	8,304,202	8,304,202
Foreign unquoted shares	-	-	11,721,386	11,721,386
Investment in managed portfolios	20,297,161	-	10,591,000	30,888,161
Investment funds	-	259,972	-	259,972
	32,086,146	259,972	30,616,588	62,962,706

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

Notes to the interim condensed consolidated financial information (continued)

19 Fair value measurement (continued)

19.2 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:

	31 March 2017 (Unaudited) KD	31 Dec. 2016 (Audited) KD	31 March 2016 (Unaudited) KD
Opening Balance	35,457,471	30,616,586	30,616,588
- Change in fair value	-	4,840,885	-
- Purchases	978,379	-	-
Closing balance	36,435,850	35,457,471	30,616,588

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)

19 Fair value measurement (continued)

19.2 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%.

20 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.