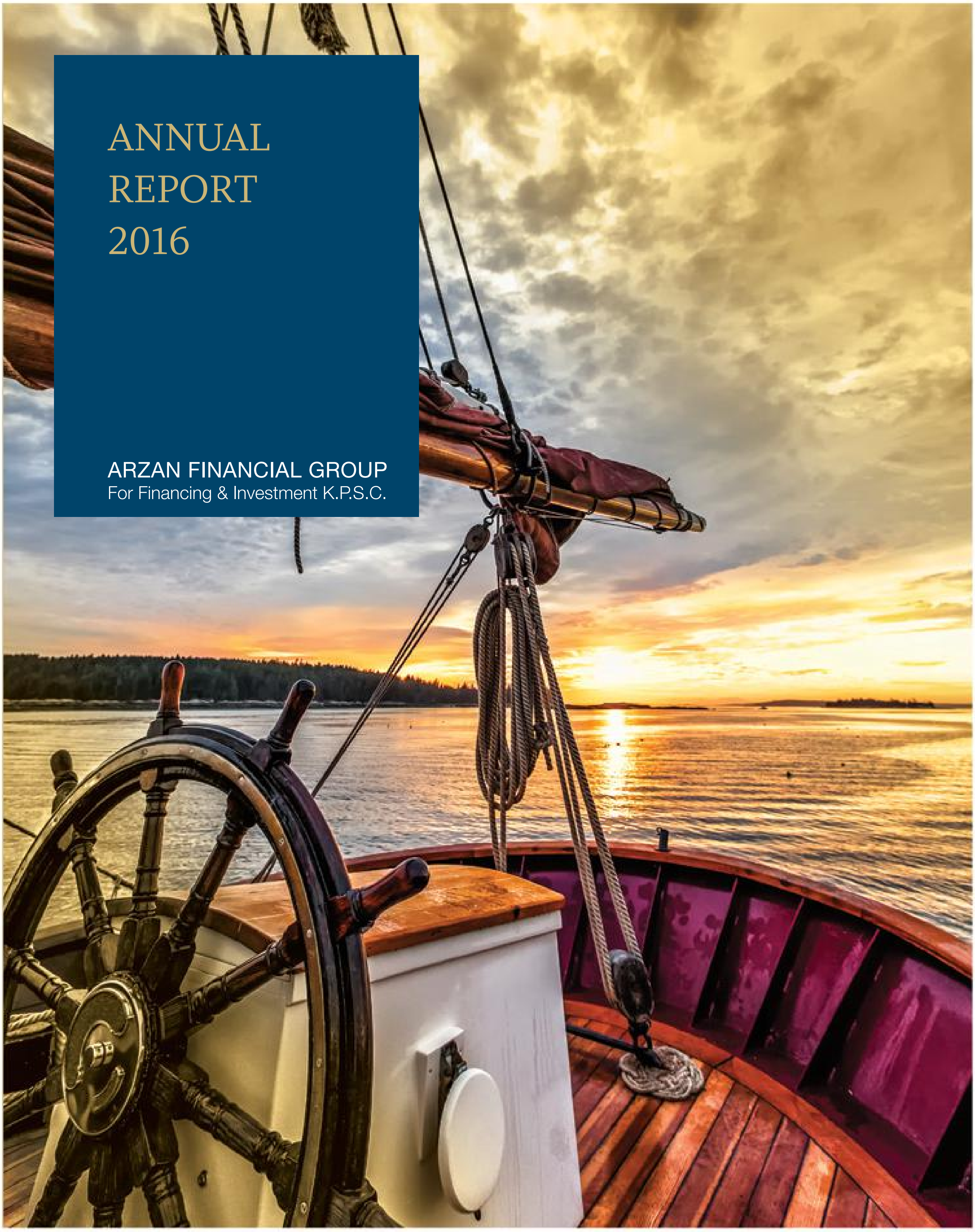
ANNUAL REPORT 2016

ARZAN FINANCIAL GROUP
For Financing & Investment K.P.S.C.



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Arzan Financial Group for Financing and Investment K.S.P.C.

Paid up Capital: KD 80,288,257
(Eight million two hundred and eight eight thousand and two hundred and fifty seven thousand Kuwaiti Dinars)

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arzan.com.kw

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H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
AMIR OF KUWAIT

H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
CROWN PRINCE OF KUWAIT

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BOARD MEMBERS

Jassem Hasan Zainal
Chairman

Ibrahim Saleh Al-Tharban
Vice Chairman

Emad Abdullah Al Essa
Board Member

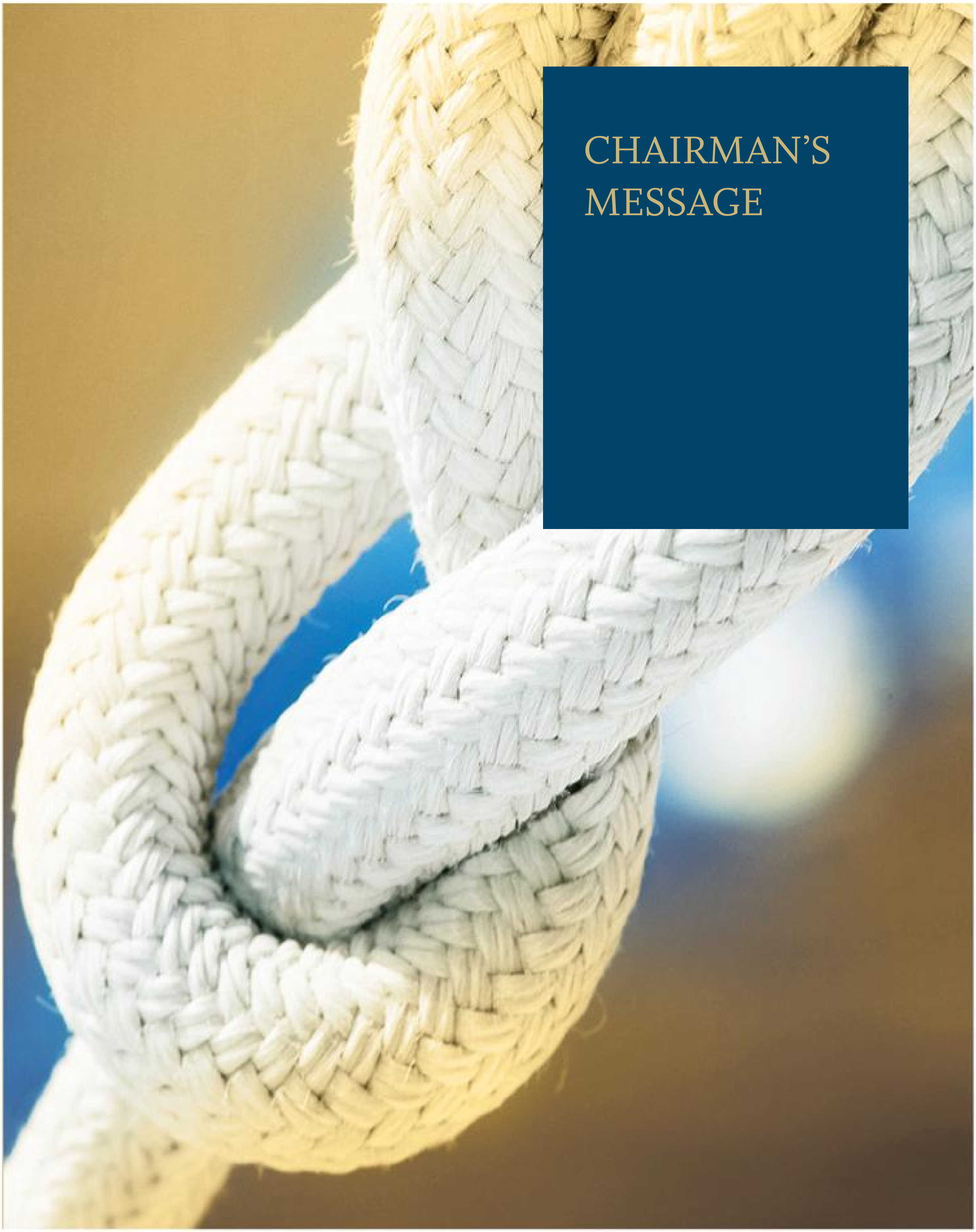
Rami Khaled Abdullah
Board Member

Ammar Taleb Hajeyah
Board Member

Ahmad Faisal Al Qatami
Board Member

Abdul Hamid Mihrez
Board Member

CHAIRMAN'S MESSAGE



Honorable Shareholders,

My colleagues' members of the Board of Directors and myself are pleased to present to you the annual financial report of Arzan Financial Group for the fiscal year ended on 31 December 2016. To reflect the management's efforts to achieve the desired objectives in accordance with the group's strategy, I'm also pleased to present to you the most important achievements, achieved by the group during this year.

The economy this year has witnessed many regional and global economic challenges such as the drop of oil prices that reflected and affected the operating work environment. The economic uncertainty and instability of the economic and geopolitical developments in the Middle East are still seen. On the other hand, as for the international scene the economic factors weren't helpful in achieving growth and expansion because of the unstable oil prices, slow growth of the Chinese market, and Britain's exist from the EU that had a negative impact on the confidence level in the market.

Despite these external challenges and in addition to the internal challenges, the group has been able to achieve positive results during this year compared to the year 2015 and has improved its key performance indicators, enhanced the work environment, restructured some of its activities and prepare the Group to increase and diversify its activities in the coming period.

The Company achieved operating Income of 9,849,859 KD for the fiscal year ended in 31 December 2016, comparing with 2015 operating Income of 8,254,141 KD.

The company also achieved a net profit of 671,417 thousand KD compared to (6,998,370) KD losses at the end of 2015.

On my behalf and on the behalf of the Board of Directors, I would like to thank with great gratitude and appreciation His Highness Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, Amir of the State of Kuwait, the Crown Prince Sheikh Nawaf Al-Ahmad Al-Jaber Al -Sabah, and His Highness Sheikh Jaber Mubarak Al-Hamad Al- Sabah, the Prime Minister, may Allah Protect and save them, His Excellency Minister of Commerce Mr.Khaled Al Roudhan, His Excellency the Governor of the Central Bank, Dr. Mohammed Yousef Al-Hashel, and Dr.Naif Falah Al-Hajraf, Chairman of the Board of Commissioners of the Capital Markets Authority, for their enduring support and valuable guidance.

I would also like to take this opportunity to express my sincere and profound recognition and appreciation to the shareholders for giving us their trust and their unwavering support. My sincere gratitude goes out to all our customers for their trust in the firm, and to Arzan Financial Group employees for their outmost dedication and hard work.

Jassem Hasan Zainal
Chairman

MANAGEMENT REPORT

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ARZAN WEALTH

Arzan Wealth (DIFC) Limited, a Dubai-based advisory firm regulated by the Dubai Financial Services Authority, was able to successfully advise various professional clients during 2016, in the acquisition of one real estate asset in each of the UK, the Netherlands and the US. These assets were all within Arzan Wealth's yielding platform, which offers a highly predictable monthly income stream from safe assets in mature markets.

Looking towards 2017, Arzan Wealth remains cautious in its approach to new transaction as it analyzes the potential impact of various geo-political and macro-economic changes around the world. With political changes in the UK and the US already taking place, and with elections in several EU countries coming up, we believe that we need to be very vigilant in order to protect the interests of our clients, as well as to identify interesting opportunities when they arise.

We also are focused on achieving successful exits from some of our earlier transactions, in order to provide our clients with the "full cycle" returns that they expect. Despite the uncertainty in the global situation at the current time, we are hopeful that we will be able to conclude on our desired exits.

Arzan Wealth remains committed to its mission of providing high quality advisory services to its clients, in order to diversify their international portfolios in a wise and cautious manner. The primary objective of Arzan Wealth is to preserve the wealth of its clients, to offer safety and monthly income, and to achieve greater diversification in mature global markets. Our success comes from developing and protecting the legacies of our clients.

Muhannad Abulhasan
Chief Executive Officer

ARZAN ASSET MANAGEMENT

The department has strategically composed a diversified portfolio to outperform the market, as well as shift country market risk wherever necessary. The portfolios' strategy is mainly focused on blue chip, large cap equities to achieve long term investments with short term capital appreciation. Due to the general macroeconomics of the markets, the department maintains a conservative risk appetite.

The Portfolio composite is diversified throughout the targeted sectors of interest and is reviewed quarterly on performance basis. The department uses both technical and fundamental analysis approaches, in a way to arrive at the desired asset distribution equilibrium. Technical levels have been studied and are a fundamental aspect in our portfolios'.

ARZAN BROKERAGE

The department is vigilant in monitoring the Brokerage Subsidiaries which are EFG Hermes IFA (Kuwait), IFA Securities Brokerage (Egypt), and IFA Financial Services (Jordan). Annual and quarterly reports are produced as well as annual visitations to optimize operational efficiency for our brokerage subsidiaries and the department.

The departments' foresight is comprised mainly on the current plans for the brokerage in its restructuring and recapitalizing of all subsidiaries brokerage companies, with a prime focus on Egypt. The department maintains its positive outlook to Egypt for several attributes, mainly since it is one of the primary markets that demonstrated success within the past period.

Egypt is the key component in our portfolio with an actual return that surpassed its forecast by 30%. The existing plans for the brokerage in Egypt is in increasing the clientele base, focusing more on institutional clients.

Talal Al Bahar
Executive Director of Asset Management & Brokerage

ARZAN CORPORATE CREDIT

Kindly note that we have a list of 42 corporate clients with retention below 10% that is maintained deliberately as per the instructions and guidance of the senior management in order to increase the portfolio and reduce concentration risk and minimize impact of any delinquent account.

The quality of the loans and customers is very high due to the strict measures and approval standards imposed by the credit policy and the Management Credit Committee.

In terms of communication with the retained clients or the new/potential prospects, the credit manager/officer is the only person responsible for follow up. Also, the operations would assist upon request. No mass publications or media is carried out as we are very selective in building the credit base at this level. Any sort of communication would be tailored between the client and AFG credit manager/officer on an individual basis. No samples are available as it is scenario based.

The Business Development Manager (BDM) was in charge of submitting performance reports related to corporate SME credit department to the senior management. Recently, the department director is provided with monthly report of the deals approved or in the pipe line including the requested value, approval value, and interest gain. The collaterals are to be added to the future monthly ending reports.

ARZAN COLLECTION

Arzan Collection Co. W.L.L., a dully incorporated company in accordance with the laws of Kuwait and one of the largest retail receivables Management Companies. Arzan has the largest customer database in Kuwait with access to telephone, address and demographics details of over 2 million individuals. Arzan owns strongest and skilled collection team consists of dedicated call center (25 agents), dedicated field team (5 agents) and dedicated judgment execution & recovery (10 agents) with full trained and understanding of all retail and corporate loans.

Arzan management has large experience in banking operations and products (over 20 years' experience) and has big experience with the top banks in Kuwait.

ARZAN VC

ArzanVC continued the good work in 2016 with 8 more investments in startups from Kuwait, Dubai, San Francisco (U.S.), Toronto (Canada) and London (U.K.). This takes our portfolio to 15 companies with 7 investments in 2015. ArzanVC lead its first deal "MEJURI" in 2016 along with other notable investors.
ArzanVC evaluated close to 300 companies in 2016 as compared to 230 companies in 2015 and eventually invested in 8 companies. 4 out of 7 portfolio companies which we invested in 2015 raised subsequent rounds at a higher valuation. Careem, the regional on-demand taxi service and one of our portfolio companies raised $350 million at a $1.0 billion valuation.
We have also started raising our second Fund which will be a $60 million fund focused on investments from pre-seed to Series A stages. In 2016, we saw a higher activity in VC investments and expect the MENA startup ecosystem to develop further and faster.

Hasan Jassem Zainal
Partner

MARKETING

In 2016, Arzan has reasserted its position in the market by reinforcing its organizational objectives which are to protect clients' and shareholders' wealth, safeguard their trust and attend to their every need by diversifying its financial activities.
By effectively managing our brand communication through our websites, conducted interviews with key executives, a targeted advertising campaign and our press releases, Arzan succeeded in becoming a familiar and indistinguishable name in its markets of choice. Clear and consistent communication has been the primary medium and contributor to AFG successful expansion and still enables us to increase our lines of business or repositioning our offerings without causing any confusion in the minds of our community.

We continue to grow our market leader position as a fully-fledged and value-creator investment and financing house in the mind of our targeted clientele.
In addition, Arzan Financial Group provided a great appearance in CSR of 2016, where Arzan Wealth has established an employee contribution program whereby 1% of employee salaries are matched by a further 1% from the company and donated to an international water charity.
In 2016, Arzan supported the Kuwait Red Crescent Society and the group got the thanks and gratitude for the huge efforts in social responsibilities.

ARZAN IT & ADMINISTRATION

In 2016, the Information Technology (IT) department kept their focus on aligning and executing the core business needs with the Arzan Financial Group's strategy. AFG IT successfully Developed and scaled the Enterprise Architecture to meet the latest and future technological developments in the areas of Software, hardware, network and information security to meet the organization needs.

T24 core business system has the concept of multi entity which enables us in hosting new business requirements of Microfinancing that that will be completed by the 1st quarter of 2017. The project is to create a new entity on AFG core business system. AFG IT successfully implemented Data Warehouse on T24 Insight system, that provides reporting and data analysis, and is considered a core component of business intelligence. Also, its known as Decision Support System which intended to support managerial decision makers to extend their capabilities but not to replace their judgment, it has three major components data, model and user interfaces. This system provides faster, smarter, and better decision in align with organizational strategy, DWs utilized to support the decision making; it is a central repository of integrated data from one or more disparate sources. They store current and historical data and are used for creating analytical reports for knowledge workers throughout the enterprise. Reports could range from annual and quarterly comparisons and T24 Insight system designed/customized and developed to provide all CBK & CMA regulatory reports.

AFG IT implemented SharePoint system that hosts ARZAN Group websites, Payment Gateway services and Document Management System, this has been widely utilized and improved the group productiveness. AFG IT completed the feasibility study on introducing ourselves in Microsoft Azure Cloud Services, building, deploying, and managing applications and services through a global network of Microsoft-managed data centers. It provides infrastructure as a service and supports many different programming languages, tools and frameworks, including both Microsoft-specific and third-party software and systems. This Project is a Departmental objective in align with the group Strategy, its phased out in six different phases over a period of 3 Years will be completed in 2020. it also enables Disaster Recovery solution in align with organizational Business Continuity Plan.

Ahmad AL Homaid
IT & Admin Manager

ARZAN HR DEPARMENT

In 2016, The HR department at Arzan Financial Group aims at providing a structure to the company that will aid in meeting business objectives by managing the Company's most valuable resources - our Employees. We prepare annual plans and strategies and clearly define the criteria for every position to attract high performing individuals from different walks of life who bring with them specialized skills and a unique point of view.

At Arzan we ensure that our workforce receives the experience and training that will help our employees to progress and develop in their career path. We define every employee's role and our performance management system helps in recognizing and rewarding outstanding performances and also provide feedback so that our employees can sharpen their existing skills and develop specialized skills which in turn help them to take up new roles. We also prepare annual training plans for our employees according to their work and organizational requirements. Reward and recognition form an integral part of our Company's Human Resource Policy. We offer a competitive compensation and benefits package and an enthusiastic working environment which keeps our employees highly motivated.

At Arzan, we invest in our employees by encouraging them to take up any Professional certifications related to their job profile. We ensure that any potential problems that may arise in the future are identified and have a defensive mechanism in place which will help us overcome any challenging situations. We at Arzan believe that employers who treat their employees well can outperform their peers in customer satisfaction, revenue growth and overall profitability.

Abeer Botrous
Human Resources Manager

ARZAN INTERNAL AUDIT

Arzan has an Internal Audit function that is commensurate with the size, nature and extent of business conducted by the Company. The Manager of the Internal Audit functionally reports to the Board Audit Committee and administratively to the Chief Executive Officer. A risk based audit approach is followed and the Board Audit Committee approves annual audit plans.

The scope of work of the Internal Audit department is to determine whether Arzan's network of risk management, control and governance processes, as designed and represented by management, is adequate and functioning.

The Internal Audit function verifies the adequacy and effectiveness of internal controls from operation, financial and statutory compliance point of view through a blend of process and transactional audits.

A summary of significant observations along with any action plan identified by the management is placed quarterly before the Board Audit Committee for review and guidance.

Karthikeyan Palanisamy
Internal Audit Manager

ARZAN RISK MANAGEMENT

1. Arzan Risk Management Principles

The management of risk lies at the heart of Arzan business strategy. We actively take risks in connection with our business and follow stringent risk principles in order to preserve and enhance value for our shareholders.
Our risk strategy is based on the following risk principles.

a. Risk is taken within Board of Directors defined risk appetite guidelines;
b. Every risk taken needs to be approved by the appropriate authority;
c. Risk should be continuously monitored and managed;
d. A strong risk culture within the organization.

2. Risk Management Governance

The Risk Management function is independent within the organizational governance structure and is not involved in the organization, trading or lending activities. The independence of the risk function is consistently monitored to ensure that risk decisions are not compromised and/or influenced and adequate balance between risk and return is achieved in order to accomplish our sustainable growth objectives.

During the year 2016, Arzan has taken number of initiatives in order to enhance risk management capabilities by increasing the number of head counts and imparting different training courses to our Risk Management staff. We have also implemented a strong risk culture and commit to maintain this culture in the coming years by imparting different risk training and awareness sessions to the employees.

Credit Risk Management

The Credit Risk Management is very critical for Arzan due to our SME lending business. We have developed conservative credit risk policies to ensure that stringent due diligence processes are adopted and only customers with strong credit history are selected.

The selection of creditworthy customers act a first line of defense for avoiding any Expected Default (ED) and Non-Performing Loans (NPL). We have also developed various concentration limits to ensure that undue concentration and long tail-risks (large unexpected losses) are avoided and a high graded diversified portfolio is maintained.

Credit Approval and Authority

Every new facility, extension and/or material change to a credit facility (such as its tenor, collateral structure or major covenant) to any counterparty requires approval from the appropriate authority level. In terms of SME credit, Arzan has not given individual authority to any individual employee of any cadre with a premise that collective decisions are always better than individual decisions.

Credit Risk Mitigation and Collaterals

In addition to determining the counterparty credit quality and our risk appetite, we also use various credit mitigation techniques to optimize credit exposure and reduce potential credit losses. Credit risk mitigants, described more fully below, are applied in the following terms;

a. Comprehensive and enforceable credit documentation with adequate terms and conditions;
b. Collateral held as security to reduce losses by increasing the recovery of obligations.
c. Risk transfer, which shift the probability of default risk of an obligor to third party including insurance companies.

Arzan regularly monitor quality of its credit portfolio to ensure that it meets the required standards and early warning signals are promptly triggered for taking risk mitigating decisions.

3. Operational Risk Management

Arzan has devised and implemented a comprehensive framework for the management of Operational Risk. The following are the key elements of such comprehensive operational risk framework;

a. Risk and Control Self-Assessment (RCSA);
b. Residual Risk Registers;
c. Key Risk Indicators (KRIs);
d. Loss data collection and incident management.

The risk team conducted regular workshops and brainstorming sessions for completing the Risk and Control Self-Assessments (RCSAs) for different departments. Inventory of inherent risks, corresponding controls and residual risks have been identified and assessed. The team also arrive at the Residual Risks register stating the summery of risks need management attention. The Residual Risk Register is being used for monitoring the risk strategies (acceptance, avoidance, transfer or dilution) and risk migration on a periodic basis.

Risk Management has also started the process of collection and analysis of Key Risk Indicators (KRIs) and lodgment of operational risk incidents occurred.

In addition, Risk Management is consistently trying to update the policies and procedures, authority matrix and organization structure to ensure that employees can't exploit internal controls for misappropriation of Arzan assets.

4. Market Risk Management

Arzan is exposed to Market Risk due to adverse movement in the equity prices, FX rates and interest rates. The Market Risk is primarily managed and retained within Board defined limit structure.

The Risk Management has worked out Value at Risk (VaR) model by passing through different phases of testing and validation to ensure that model deliver accurate and reliable results.

We have started to calculate the VaR for foreign currency and equity investment exposure under different scenarios and assumptions. The information derived from VaR calculation will help the business manager to take prompt decisions and avoid excessive risks. We will further enhance our model, increase its coverage to ensure that VaR findings become an integrated part of the key decisions making.

5. Corporate Governance

During the year of 2016, Arzan has complied with CMA guidelines on Corporate Governance and had submitted the report to CMA within the deadline prescribed by the authority.

6. Anti-Money Laundering (AML)

Arzan gives utmost importance to AML policies, regulatory requirements and controls required to combat Anti-Money Laundering (AML) particularly keeping in view the various regional and international developments. During the year 2016, we have imparted AML training to our employees and regularly working to improve AML policies including the customer screening process, enhanced due diligence and periodic reporting to different regulatory authorities.

ARZAN FINANCE DEPARTMENT

During 2016, Arzan Financial Group achieved profits of KD 671 thousand compared to losses of KD 6.99 million which is a 110% increase from the previous year.

Arzan Group has achieved operating revenues with amount of KD 9.85 million as compared to 8.25 million KD, with an increase equivalent to 19.0%. The reason of the increase is due to the followings:

1. Increase in share of results of associates.
2. Increase in Dividend income.
3. Increase in Advisory fees.
4. Increase in interest income.

Expenses and other charges also amounted to KD 7.23 million compared to KD 13.90 million, with a decrease of 110%, And the reasons for this decrease is due to the followings:

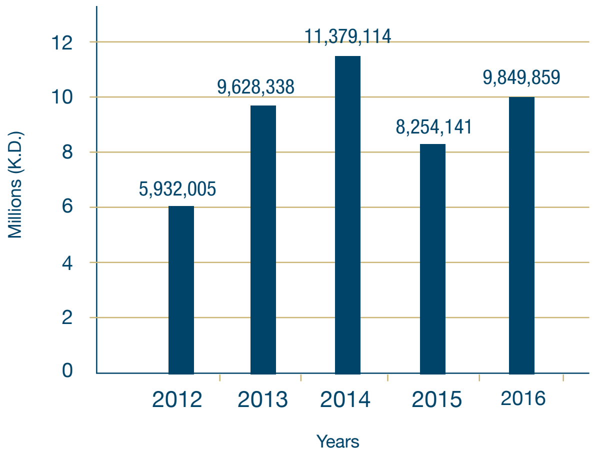
1. Decrease in impairment of available for sale investment.
2. Decrease in provision for installment credit debtors.
3. Decrease in impairment of real estate under development.

The following are the financial indicators that reflect the performance of Arzan Financial Group during the past five years.

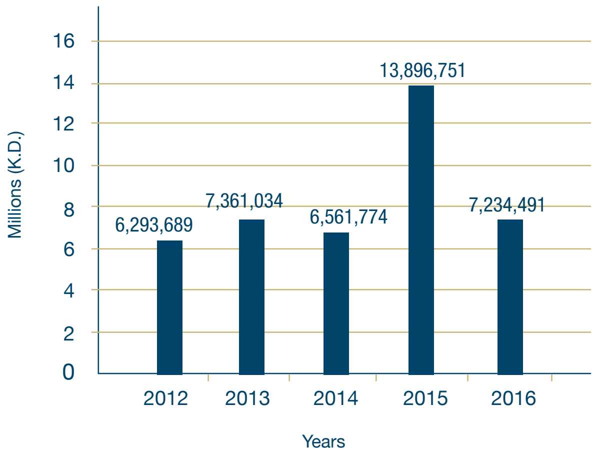
Mohammed Farid
Finance Director

FINANCIAL REPORT ANALYSIS

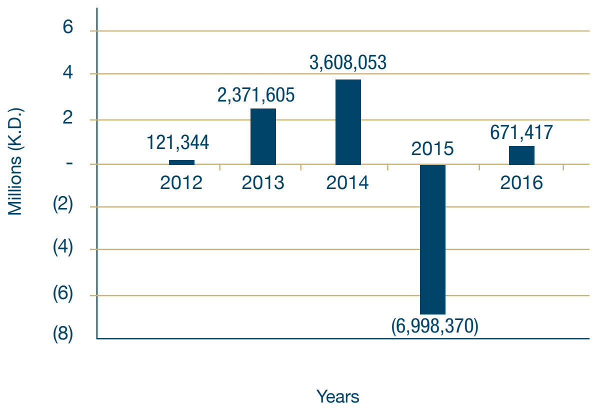
Total Income



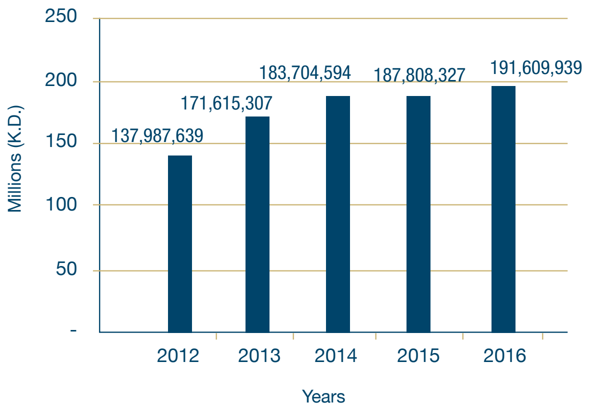
Total Expenses



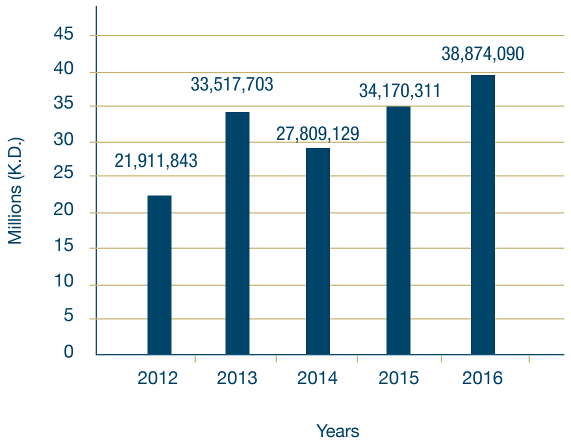
Net Income attributable to the parent company



Assets

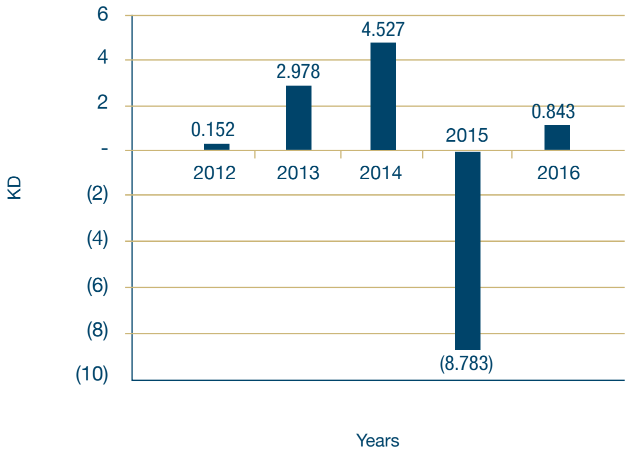


Total Liabilities

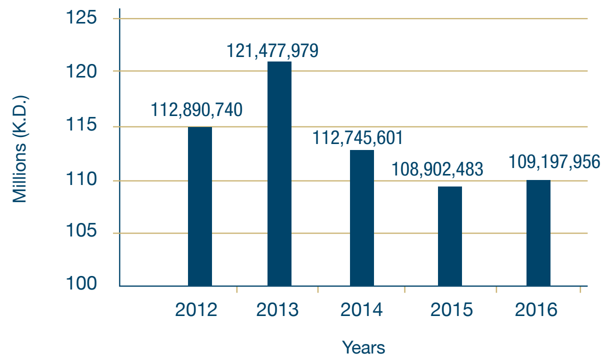


FINANCIAL REPORT ANALYSIS

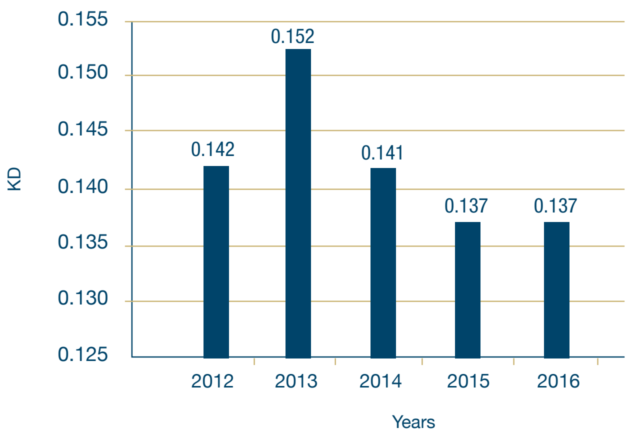
Earnings per Share



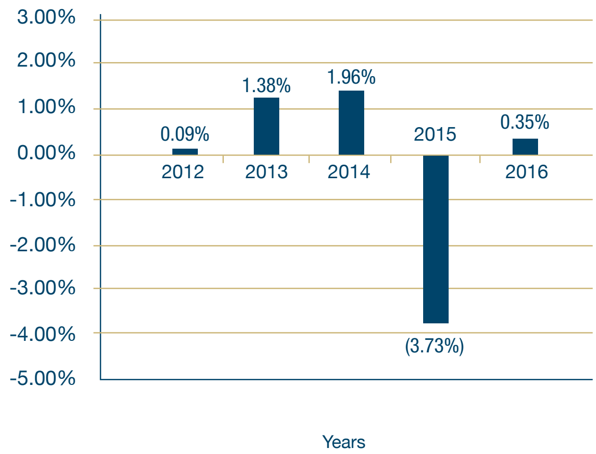
Shareholders' equity attributable to parent company



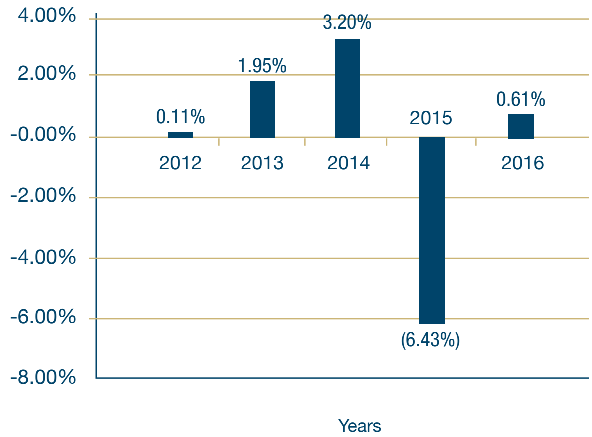
Book Value



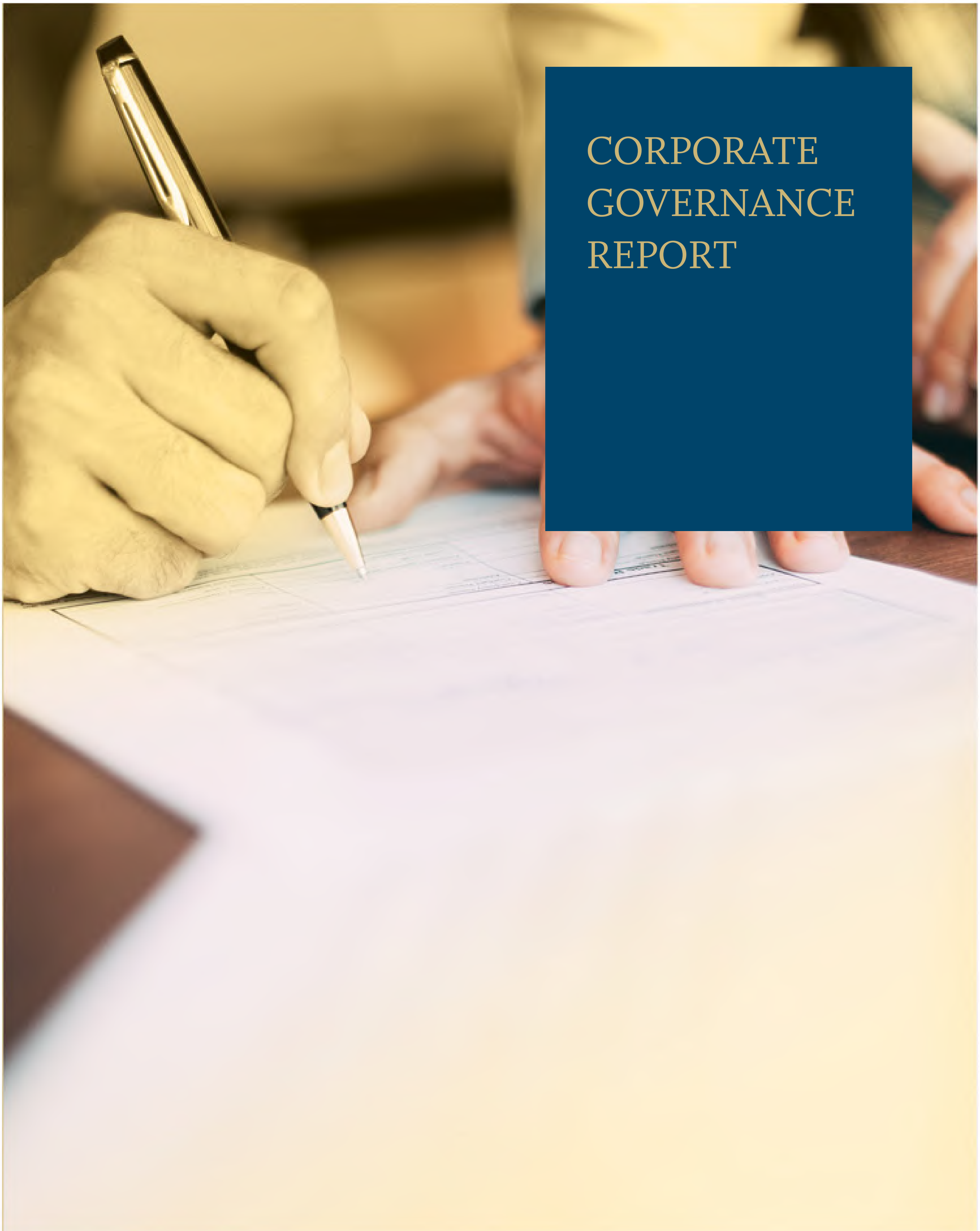
Return on Assets



Return on Equity



CORPORATE GOVERNANCE REPORT



CORPORATE GOVERNANCE REPORT

Transparency and disclosure drives and enhances the stability and growth of the organization by implementing the global best practices and complying with the instructions issued by the regulatory authorities; this report highlights our intention to enhance the management efficiency and also thereby enhancing the internal controls and auditing procedures and our contribution towards Corporate Social Responsibility in the society, thereby achieving fairness and transparency through code of ethics and limiting conflict of interest. This Corporate Governance Report has been prepared based on the following rules:

Rule 1: Construct a Balanced Board Composition

Rule 2: Establish Appropriate Roles and Responsibilities

Rule 3: Recruit Highly Qualified Candidates for Members of a Board of Directors and the Executive Management

Rule 4: Safeguard the Integrity of Financial Reporting

Rule 5: Apply Sound Systems of Risk Management and Internal Audit

Rule 6: Promote Code of Conduct and Ethical Standards

Rule 7: Ensure Timely and High Quality Disclosure and Transparency

Rule 8: Respect the Rights of Shareholders

Rule 9: Recognize the Roles of Stakeholders

Rule 10: Encourage and Enhance Performance

Rule 11: Focus on the Importance of Corporate Social Responsibility

Rule 1

Board of Directors

The Board considers that the skills, knowledge, experience and characteristics of the Directors are appropriate to their responsibilities and our activities. The Directors bring a range of skills to the Board, including, but not limited to:

- International and regional experience;
- Technical expertise of the business, regulatory and economic environment, in which Arzan operates; and
- Financial sector experience and knowledge

Board's Composition

As at 31 December 2016, the Board, including the Chairman, comprised 6 Directors (of which 1 is independent) and 1 Executive Director.

Independence

One Non-Executive Directors is totally independent. The factors the Board has taken into account in determining the independence of Directors are in line with the relevant Kuwait Capital Market Authority regulations.

The skills and experience profile of the Board is reviewed regularly to ensure an appropriate and relevant Board composition.

Name	Member Classification	Qualification and Experience	Date of the election
Jassem Hassan Zainal	Executive (Chairman)	- Bachelor of Science – Civil Engineering, University of Miami, (1980), USA. - Bachelor of General Studies – Mathematics, University of Miami, (1981), USA. - Master of Science – Civil Engineering, Kuwait University, (1991), State of Kuwait. 30 years of experience in banking, investment and financial institutions	June 26, 2014
Ibrahim Saleh Al Tharban	Non- Executive	- Bachelor of Commerce, Accounting Section, Kuwait University, (1975) State of Kuwait. 40 years of experience in banking, investment, real estate and financial institutions	June 26, 2014
Imad Abdullah Al Essa	Non- Executive	- Bachelor of Science, Business Administration, Polytechnic University, (1986), Pomona, California, USA. - Masters of Business Administration-Accounting, George Washington University, (2002-2004), Washington DC, USA. 30 years of experience in investment, real estate and financial institutions.	June 26, 2014
Rami Khaled Abdullah	Non- Executive	- Bachelor of Arts-Business Administration, American University of Beirut (1996-2000), Beirut, Lebanon. - Masters of Business Administration-Accounting, George Washington University (2002-2004), Washington DC, USA. - Charted Financial Analyst (USA) – CFA, 2008. - Certified Public Accountant (USA) – CPA, 2005. - Certified Financial Manager (USA) – CFM, 2002. - Certified Management Accountant (USA) – CMA, 2001. 20 years of experience in auditing, consulting, investment, real estate and financial institutions.	June 26, 2014
Amar Taleb Hajeya	Non- Executive & Independent	- Bachelor of Business Administration and Finance, Kuwait University, (1999-2004), State of Kuwait. - MBA in Strategic Management, Kuwait Maastricht Business School, (2005-2008), State of Kuwait. 15 years of experience in investment, real estate and financial institutions.	June 26, 2014
Abdulhameed Mohammed Mehrez	Non- Executive	- Bachelor of Science – Biology, (1999), Beirut, Lebanon. - Master Degree in Business Administration and Finance, Lebanese American University, (2002), Beirut, Lebanon. - Charted Financial Analyst (USA) – CFA, 2005. 15 years of experience in investment, real estate and financial institutions.	June 26, 2014
Ruba Fati Ghanem	Board Secretary	Bachelor of Business Administration – Banking, Town University, USA. 18 year of experience in Banking, Investment and Financial Institutions. Grant	January 10, 2013

Board Meetings and Attendance

All Directors are expected to attend meetings of the Board and Board Committees on which they serve. They are expected to prepare for each meeting in advance and to dedicate sufficient time at each meeting as necessary to properly discharge their responsibilities to the Company and its shareholders.

Board meetings are scheduled at the commencement of each calendar year and held at least on quarterly basis. Directors are provided with comprehensive documentation to enable their consideration regarding the issues on which they will be requested to make decisions. Board documentation typically includes among others:

- Quarterly financial statements;
- Minutes of the previously held Board and Committee meetings;
- Aspects/ developments within each of the operating divisions; and
- Reports on significant regulatory issues.

Member Name	Meeting No. (1/2016) held at 29/03/2016	Meeting No. (2/2016) held at 1/05/2016	Meeting No. (3/2016) held at 30/06/2016	Meeting No. (4/2016) held at 18/08/2016	Meeting No. (5/2016) held at 10/11/2016	Meeting No. (6/2016) held at 21/12/2016	Number of Meetings
Jassim Hassan Zainal (Board's acting Chairman)	✓	✓	✓	✓	✓	✓	6
Ibrahim Al Tharban (Board's Vice Chairman)	×	×	×	×	✓	✓	2
Abdul-Hameed Mehrez (Board's Member)	✓	✓	×	✓	✓	×	4
Imad Abdullah Al Essa (Member)	✓	✓	✓	✓	×	✓	5
Rami Khaled Abdullah (Member)	✓	✓	✓	✓	✓	×	5
Amar Taleb Hajeya (Board's independent Member)	✓	✓	✓	✓	✓	✓	6
Ahmad Al Qattami (Member)	✓	×	Resigned	Resigned	Resigned	Resigned	1

Board's Responsibilities

The role of the Board is to govern Arzan rather than day to day management of Arzan. In general, the Board is responsible for, and has the authority to determine, all matters relating to the strategic directions, policies, practices, management and operations of Arzan. It is the role of Executive Management to manage Arzan in accordance with the directions and delegations of the Board. The Board operates through an approved Board Charter, which captures the following key responsibilities of the Board, among various others as mandated by relevant laws and regulations:

- Set and agree Arzan' s objectives, strategies and plans for achieving those objectives;
- Review the Corporate Governance processes and assess achievement against objectives;
- Review and monitor the performance of Board and Executive Management;
- Approve Arzan's funding and borrowing requirements;
- Approve annual budgets and ensure that performance is measured against budgets and business plans;
- Recommend acquisitions, mergers, takeovers and divestments of operating companies to the shareholders for their approval, when and as required by local law;
- Consider and approve the annual financial statements, interim statements, dividend announcements and notices to shareholders as per the recommendation of the Board Audit Committee;
- Assume ultimate responsibility for financial, operational and internal control and risk management systems;
- Take ultimate responsibility for regulatory compliance; and
- Ensure a balanced assessment of the Group's position in reporting to stakeholders.

Rule 2 & 3

Board Committees

Arzan's internal management and control system is based on the directives and regulations issued by the Capital Markets Authority, Central Bank of Kuwait, Boursa Kuwait, the Company's Articles and Memorandum of Association and its own internal practices. The board of directors has the ultimate responsibility for the operations of the company, and delegates some of its authority to the Board Committees. The Board has formed four committees to help it oversee Arzan's decision making and oversight functions. Each Board committee performs its duties in compliance with its own charter as determined in the Board Charter pursuant to the applicable regulations.

1. Board Audit Committee:

The Board Audit Committee is responsible to assist the Board in the effective discharge of its responsibilities with respect to financial reporting, internal controls, internal and external audit; and to establish the compliance culture of the Company by ensuring the independence of the external auditors and the fairness and integrity of the Company's financial reports and ensuring that the internal controls within the Company are sufficient and efficient.

The Board Audit Committee comprises of following members:
- Ebrahim Al Tharban -Chairman
- Ammar Hajeyah – Independent Member
- Emad Al Essa - Member
- Ahmad Al Qatami- Member
- Ruba Ghanim - Secretary of the Committee

Member Name	Meeting No. (1/2016) held on 29/3/2016	Meeting No. (2/2016) held on 1/5/2016	Meeting No. (3/2016) held on 18/8/2016	Meeting No. (4/2016) held on 10/11/2016	Meeting No. (5/2016) held on 21/12/2016	Number of Meetings
Ibrahim Al Tharban (Chairman)	×	×	×	✓	✓	2
Imad Abdullah Al Essa (Member)	✓	✓	✓	×	✓	4
Amar Taleb Hajeya (Board's independent Member)	✓	✓	✓	✓	✓	5
Ahmad Al Qattami (Member)	×	×	Resigned	Resigned	Resigned	-

2. Board Risk Committee

The Board Risk Committee is responsible to assist the BOD in fulfilling their oversight responsibilities for the risk management function of the Company such as identification, evaluation, monitoring and mitigation of all risks that the Company is exposed to. The Committee assists the Board in setting the Company's risk strategy and appetite, the overall Risk Management Framework, and oversees the Executive Management's application of such strategy.

The Board Risk Committee comprises of three members:
- Ebrahim Al Tharban (Committee Chairman)
- Jassem Hassan Zainal - Member
- Ammar Hajeyah – Independent Board Member

The committee was formed during November 2016. Hence no meetings have been held during the year 2016.

3. Board Nomination & Remuneration Committee

This Committee discharges the responsibilities relating to compensation of Arzan's Board and Executive Management in line with their performance, qualifications and experience levels. The Committee also undertakes additional nomination related responsibilities as stipulated by the CMA and other provisions of law. The Committee operates on the basis of a Board approved Charter.
The Board Nomination and Remuneration Committee comprises of two members:
- Jassem Hassan Zainal - Member
- Rami Abdullah - Member

The committee was formed during November 2016. Hence no meetings have been held during the year 2016.

4. Board Executive Committee

The committee provides strategic oversight to the Business Departments of the Company and reviews the Company's overall performance. The committee aims at pro-actively reviewing the progress made by the business units in achieving their budgeted goals, the progress made on key strategic projects and initiatives and identifies opportunities for enhancing the synergies across the Business Departments.
The Board Executive Committee comprises of three members:
- Jassem Hassan Zainal - Chairman
- Rami Abdullah – Member
- Abdulhameed mehrez – Member

The committee did not have any meetings during the year 2016

Rule 4

Financial Reporting

The Board of Directors is responsible for monitoring and reviewing the reliability of the financial statements, accounting policies and the information contained in the Annual Report. In undertaking this responsibility, the Directors are supported by on-going processes for identifying, evaluating and managing risks we face. The processes are implemented by management and independently monitored for effectiveness by Internal Audit department, Risk Management department and other sub-committees of the Board.

External Audit

Our External Auditors during the year were M/s Grant Thorton and Rodl Middle east. The independence of the External Auditors is recognized and reviewed with the auditors by the Board Audit Committee on an annual basis. Non-audit services are dealt with in terms of the following:
- Our External Audit firms must have internal standards and processes to monitor and maintain their independence; and
- Safeguards must be in place to ensure that there is no threat to the objectivity and independence in the conduct of the audit, resulting from the provision of non-audit services by the External Auditors.

Rule 5

Internal Control Systems

The integrity and reliability of the internal control systems are achieved through policies and procedures, process automation, careful selection of employees, bringing awareness to the staff, and an organizational structure that segregates responsibilities.

Control procedures have been established to safeguard its assets and to ensure that decisions, actions, and transitions are properly authorized, and financially recorded. Risk Control Self Assessments (RCSA), compliance testing and reviews are conducted periodically by the Risk Management Department and Compliance Department respectively.

Internal Audit

The Internal Audit function independently reports to the Board Audit Committee ("BAC"). The audits are performed by in-house internal audit team according to the internal audit plan approved by the BAC and comprehensive reports are submitted by the internal auditors directly to the BAC. Necessary corrective policies and measures are adopted, wherever required. The Internal Audit plan is implemented through evaluating controls over significant risks and the effectiveness of risk management, control and governance processes.

Risk Management

Arzan has a comprehensive risk management and control framework in place to ensure that the Company and its related entities are appropriately governed. The Board directs the policy and process framework and is responsible for risk management and for all risk control systems that are implemented in Arzan.

The Arzan's Board ensures that risk management is embedded into the Company's culture, policies and processes. Officers at the Risk Management Department assume significant extent of power, in order to perform their roles without being granted financial powers and authorities.

The Risk Management Department identifies, measures, evaluates and reports on all critical risks to which Arzan is exposed, through defined key risk indicators under relevant risk buckets. It carries out periodic risk control and monitoring activities and also prepares and implements new policies for review and control. The department aims towards enhancing its risk monitoring abilities through appropriate automation. The Risk Department submits quarterly reports to the Board of Directors.

Rule 6

Code of Conduct for Board Members and Executive Management

Arzan has in place a Code of Conduct applicable to the Board of Directors, Executive Management, and all the employees of Arzan. The Code outlines the following issues:

Compliance with Laws, Rules and Regulations: The Board and Executive Management are committed to complying with all laws, rules and regulations applicable to Arzan and its subsidiaries.

Conflicts of Interest: This section establishes controls to manage conflicts of interest. Whenever such conflicts appear, they are immediately disclosed to Compliance department and recorded in a register.

Insider Trading: Use of non-public material information or sharing such information to trade shares and making financial gain on such information is prohibited for all Directors and Officers.

Corporate Opportunities: Directors and Officers may not use corporate property, information, or position for personal gain, and may not compete with the Company directly or indirectly.

Competition and Fair Dealing: The Board and Management respect the rights of and deal fairly with the Company's customers, suppliers, competitors and employees. Directors and Officers shall not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other illegal trade practices.

Record Keeping, Financial Controls and Disclosures: All of the Company's books, records, accounts and financial statements must be maintained in reasonable detail, must appropriately reflect the Company's transactions, must be promptly disclosed in accordance with any applicable laws or regulations and must conform both to applicable legal requirements and to the Company's system of internal controls.

Confidentiality: Directors and Executive Management must maintain confidentiality of proprietary information entrusted to them by the Company or its customers or suppliers, except when disclosure is authorized/required by laws or regulations or when a disclosure is made in the ordinary course of business on a "need to know" basis.

Protection and Proper Use of Company Assets: The obligation of Directors and members of the Executive Management is to protect the Company's assets includes the Company's proprietary information. Proprietary information includes intellectual property such as trade secrets, patents, trademarks, and copyrights, as well as business, marketing and service plans, databases, records, salary information and any unpublished financial data and reports. Unauthorized use or unauthorized distribution of this information is a violation of Company policy. It could also be illegal and result in civil or criminal penalties.

Financial Reporting: Directors and Executive Management take the financial reporting responsibility professionally in accordance to IFRS and will provide prompt and accurate answers to inquiries related to the Company's public disclosure requirements to Shareholders, beneficial owners and other parties for any correspondence.

Rule 7

Disclosure and Transparency

The Company is committed to apply the highest standards of transparency, as the Board has approved policies and procedures for disclosure which guarantee the provision of accurate and timely information to shareholders and stakeholders. The Compliance Department coordinates with all departments of the Company to disclose accurate information on a timely basis to the Kuwait Capital Markets Authority, Boursa Kuwait and applicable stakeholders.
Arzan has a Board approved policy for disclosure and transparency.

Investor Relations Unit

The purpose of the Investor Relations Unit is to enhance communication & transparency with shareholders and address shareholders complaints. Additionally, the Unit:

- oversees the performance of the Registrar and Transfer Agent of the Company;
- recommends measures for overall improvement in the quality of services to the investors;

Rule 8

Shareholder Rights

The Company is committed to protect the rights of shareholders, and the Board of Directors has approved policies that ensure the protection of the rights of all shareholders and that provides the shareholders to exercise their rights given in the Kuwait Commercial Companies Law and the instructions of the Kuwait Capital Markets Authority.

Share Transfer System

The Company's shares are transferable through the depository system.

Registrar and Share Transfer Agent

Kuwait Clearing Company
P.O. Box 22077
Safat 13081
Kuwait
info@maqasa.com

Rule 9

Stakeholder Rights

Arzan acknowledges stakeholders' rights and works on encouraging the cooperation between the Company and the stakeholders in various areas. Arzan has a Board approved policy for stakeholder rights.

Rule 10

Training

Arzan has developed training plans for the Board of Directors, Executive Management and employees of the company. Regular training programs are conducted as per the approved training plan of the company.

Performance Evaluation

Executive Management Performance Evaluation:
Consists of approved Policies and Procedures for adopting and implementing a formal process of annual performance review of the Board of Directors in relation to their effectiveness and contribution in conducting the affairs of Arzan Financial Group.

Board and Committees Performance Evaluation:
The objective of the performance evaluation process is to have a consistent and systematic formal method to assess the performance of the Board of Directors, and their committees, in order to take the proper steps to enhance the overall performance of Board of Directors. This process will assist the board of directors in their recommendations to the shareholders at the re-election period.

This Process consists of various methods covering the requirements / expectations under the corporate governance approach to evaluate the board members through Self-Assessment, Specialized Committee's Assessment and assessing the overall performance of the Board, in order to take the necessary steps to improve the performance of the board of directors.

Additionally, this includes assessment related to requirement outlined in the Board Charter, Code of Conduct, Conflict of Interest policy & procedures. The process has the following 3 self-explanatory questionnaires to be completed by the Directors:

a. Self-Assessment Questionnaire (A)
b. Committee Assessment Questionnaire (B)
c. Board Assessment Questionnaire (C)

The Nomination and Remuneration Committee will review the assessments and submit a summary report to the Board with their recommendations.

Board Members Remuneration:
For the year 2016 no remuneration was paid to the board members.

Executive management remuneration:
Fixed Remuneration includes: Fixed remunerations include salaries, allowances and benefits (including end of service benefits) is granted according to the Company's salary and grading structure approved by the Board, applicable laws and regulations, approved Human Resources Manual .

Variable Remuneration includes: The variable annual remuneration is linked to the achievement of previously established targets. This compensation system is designed to motivate and reward executive management. Variable remuneration amounts are allocated to individuals depending upon individual and companywide performance. The variable remuneration is provided as a cash bonus

Category	No. of Employees	Total of Fixed Remuneration (KWD)	Total of Variable Remuneration	Total (KWD)
Executive Management	3	276,584	NIL (To the date of (the AGM	276,584

Rule 11

Corporate Social Responsibility
The Company is committed to achieve sustainable development of our society and economy in general and employees in particular. The Company has a policy of social responsibility that has been approved by the Board of Directors to ensure contribution to the achievement of sustainable economic and social development.

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Kuwait

OPINION LETTER

The Board of Directors
Arzan Financial Group for Financing and Investment - KPSC
P.O.Box 13125
State of Kuwait

30 March, 2017

Dear Sirs,

Review and Assessment of Internal Control Systems

In accordance with our letter of engagement dated 11 January 20 17, we have examined and reviewed the internal controls systems of Arzan Financial Group KP.S.C for the year ended 31 December 2016.

The review covered the following areas:

- Corporate Governance;
- Internal Audit
- Risk and Compliance
- Finance and Accounting
- Information Technology
- Investments
- Corporate Credit
- Retail Credit and Collection
- Asset Management
- Human Resources and Administration
- Anti-Money Laundering
- Legal
- Operations
- Marketing

Our examination has been carried out as per the requirements of the Executive regulations of Kuwait Capital Market Authority (Book No. 15 "Corporate Governance" article 6-9).

As members of the Board of Directors of ARZAN, you are responsible for establishing and maintaining adequate internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems and complying with the requirements contained in the CMA instructions mentioned in the above paragraph. The objective of this report is to provide reasonable. but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in

OPINION LETTER (CONTINUED)

The Board of Directors
Arzan Financial Group for Financing and Investment - KPSC

accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.

Because of inherent limitations in any internal controls system; errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

With the exception of the matters set out in the accompanying report, and having regard to the nature and volumes of the Company's operations, during the year ended 31 December 2016, and the materiality and risk rating of our findings, in our opinion:

a) The internal controls systems of the Company were established and maintained in accordance with the requirements of the Capital Market Authority and the sound governance rules.

b) the findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Company for the year ended 31 December 20 16, and

c) the actions taken by the company to address the findings referred in the report are satisfactory.

Yours faithfully,

Qais M. Al Nisf
License No. 38 "A"
BDO Al Nisf & Partners

BOARD DECLARATION
on the Integrity and Fairness of the financial statements

March 30, 2017

We, the Board of Directors hereby certify that to the best of our knowledge and belief, the consolidated financial statements of Arzan Financial Group for Financing & Investment KPSC (“the Parent Company”) and its subsidiaries (collectively, the “Group”), which comprise:

a) the consolidated financial position as at 31 December 2016
b) the related consolidated statement of income,
c) consolidated statement of other comprehensive income,
d) consolidated statement of changes in equity and
e) consolidated statement of cash flows

for the year then ended, and notes to consolidated financial statements, including a summary of significant accounting policies present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Members Name	Position	Signature
Jassem Hassan Zainal	Acting Chairman - B.O.D	
Ibrahim Saleh Al-Tharban	Vice Chairman - B.O.D	
Imad Abdullah Al Essa	Member - B.O.D	
Rami Khaled Abdullah	Member - B.O.D	
Amar Taleb Hajeyah	Independent Member - B.O.D	
Abdulhameed Mohammed Mehrez	Member - B.O.D	

CEO AND CFO DECLARATION on the Integrity and Fairness of the financial statements

March 30, 2017

We, the CEO and CFO hereby certify that to the best of our knowledge and belief, the consolidated financial statements of Arzan Financial Group for Financing & Investment KPSC ("the Parent Company") and its subsidiaries (collectively, the "Group"), which comprise:

a) the consolidated financial position as at 31 December 2016,
b) the related consolidated statement of income,
c) consolidated statement of other comprehensive income,
d) consolidated statement of changes in equity and
e) consolidated statement of cash flows

for the year then ended, and notes to consolidated financial statements, including a summary of significant accounting policies present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Jassem Hassan Zainal
Chief Executive Officer

Mohammed Farid
Director - Finance

FINANCIAL STATEMENTS

ARZAN
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Grant Thornton
Al-Qatami, Al-Aiban & Partners
An instinct for growth™

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E-mail: info-kuwait@rodlme.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Arzan Financial Group for Financing and Investment - KPSC ("Parent Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below as the key audit matters.

Valuation of Available for Sale Investments

The Group's available for sale investments represent 52% of the total assets. Due to their unique structure and terms, the valuation of these instruments is based either on external independent valuations or on entity-developed internal models and not on quoted prices in active markets. Therefore, there is significant measurement uncertainty involved in this valuation. As a result, the valuation of these instruments was significant to our audit. We have, therefore, spent significant audit efforts in assessing the appropriateness of the valuations and underlying assumptions. The Group's disclosures about its available for sale investments are included in Note 17 and 34.2.

Our audit procedures included agreeing carrying value of the unquoted investments to the Group's internal or external valuations prepared using valuation techniques, assessing and challenging the appropriateness of estimates, assumptions and valuation methodology and obtained supporting documentation and explanations to corroborate the valuations.

Equity Method of Accounting

The Group has interests in number of associates which are significant to the Group's consolidated financial statements. The Group exercises significant influence over its associates and consequently accounts for under the equity method of accounting. Under the equity method, the Group's interests in the associates are initially stated at cost, and are adjusted thereafter for the post-acquisition changes in Group's share of the net assets of the associates less any impairment. The geographically dispersed structure increases the complexity of the Group's control environment and our ability as Group's auditors to obtain an appropriate level of understanding of these entities including any related party transactions. Due to these factors and the significance of the investment in associates to the Group's consolidated financial statements we consider this as a key audit matter.

Our audit procedures included, among others, determining the nature and extent of audit procedures to be carried out for associates and selecting significant associates based on the size and/or risk profile of these entities. During our audit we considered the geographical diversity of Group's structure and communicated with the component auditors. We also provided detailed instructions to the component auditors covering the significant areas and risks to be addressed including the identification of related parties and transactions. Furthermore, we evaluated the Group's methodology and testing of the key assumptions used by the Group in determining the associates' recoverable amount based on value-in-use. We also assessed the adequacy of the Group's disclosures in notes 4.10 and 18 to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT to the Shareholders of Arzan Financial Group for Financing and Investment - KPSC (continued)

Other information included in the Group's 2016 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT to the Shareholders of Arzan Financial Group for Financing and Investment - KPSC (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT to the Shareholders of Arzan Financial Group for Financing and Investment - KPSC (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the

INDEPENDENT AUDITOR'S REPORT to the Shareholders of Arzan Financial Group for Financing and Investment - KPSC (continued)

Report on Other Legal and Regulatory Requirements (continued)

best of our knowledge and belief, no violations of the Companies Law, the Executive Regulations, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2016 that might have had a material effect on the business or financial position of the Parent Company.

We further report that, during the course of our audit and to the best of our knowledge and belief, we have not become aware of any material violations of the provisions of Law 7 of 2010, as amended, relating to the Capital Markets Authority and its related regulations during the year ended 31 December 2016 that might have had a material effect on the business or financial position of the Parent Company.

We further report that, during the course of our audit, we have not become aware, of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of the banking business, and its related regulations during the year ended 31 December 2016 that might have had a material effect on the business or financial position of the Parent Company.

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

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

Kuwait
30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 KD	2015 KD
Revenue			
Income from instalment credit debtors	7	**1,882,075**	2,877,350
Rental income		**174,118**	175,179
Interest income		**504,489**	253,066
Gain on sale of investments at fair value through profit or loss		**1,914**	17,584
Change in fair value of investments at fair value through profit or loss		**(1,911)**	(954,137)
Gain/(loss) on sale of available for sale investments		**15,688**	(357,943)
Loss on disposal of subsidiaries		**-**	(102,494)
Share of results of associates		**2,060,089**	1,377,871
Dividend income	8	**2,891,755**	2,705,198
Brokerage income		**391,770**	535,135
Advisory fees		**2,139,853**	1,486,759
Loss on foreign currency exchange		**(669,381)**	(124,281)
Other income		**459,400**	364,854
		9,849,859	8,254,141
Expenses and other charges			
Staff costs		**(2,533,815)**	(2,601,604)
General and administrative expenses		**(1,330,112)**	(1,514,648)
Finance costs	9	**(1,432,404)**	(1,016,472)
Depreciation		**(293,562)**	(290,332)
Provision for instalment credit debtors	13	**(288,524)**	(549,168)
Impairment of available for sale investments	17	**(1,221,913)**	(7,267,257)
Impairment of investment in real estate under development	19	**(134,161)**	(657,270)
		(7,234,491)	(13,896,751)
Profit/(loss) for the year before provision for National Labour Support Tax		**2,615,368**	(5,642,610)
Provision for National Labour Support Tax (NLST)		**(18,924)**	-
Profit/(loss)for the year		**2,596,444**	(5,642,610)
Attributable to:			
Shareholders of the parent company		**671,417**	(6,998,370)
Non-controlling interests		**1,925,027**	1,355,760
Profit/(loss) for the year		**2,596,444**	(5,642,610)
Basic and diluted earnings/(loss) per share attributable to the shareholders of the parent company (Fils)	10	**0.843**	(8.783)

The notes set out on pages 12 to 69 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 KD	2015 KD
Profit/(loss) for the year	**2,596,444**	(5,642,610)
Other comprehensive (loss)/income:		
Items that will be reclassified subsequently to consolidated statement of profit or loss:		
Exchange differences arising on translation of foreign operations	**(3,994,298)**	(730,177)
Available for sale investments:		
- Net change in fair value arising during the year	**(707,834)**	(3,707,557)
- Transferred to consolidated statement of profit or loss on sale	**(18,392)**	(191,218)
- Transferred to consolidated statement of profit or loss on impairment	**1,221,913**	7,267,257
Total other comprehensive (loss)/income for the year	**(3,498,611)**	2,638,305
Total comprehensive loss for the year	**(902,167)**	(3,004,305)
Attributable to:		
Shareholders of the parent company	**247,882**	(3,825,089)
Non-controlling interests	**(1,150,049)**	820,784
Total comprehensive loss for the year	**(902,167)**	(3,004,305)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2016

	Notes	2016 KD	2015 KD
Assets			
Cash and cash equivalents	12	**10,103,929**	7,307,640
Instalment credit debtors	13	**11,118,653**	13,494,741
Investments at fair value through profit or loss	14	**6,814,873**	6,720,274
Accounts receivable and other assets	15	**5,821,949**	6,780,171
Due from related parties	32	**1,104,711**	676,801
Properties held for trading	16	**1,313,947**	1,313,947
Available for sale investments	17	**98,812,690**	91,573,129
Investment in associates	18	**47,347,791**	50,604,203
Investment in real estate under development	19	**4,180,940**	4,108,650
Investment properties	20	**1,772,684**	1,832,060
Property and equipment	21	**3,217,772**	3,396,711
Total assets		**191,609,939**	187,808,327
Liabilities and equity			
Liabilities			
Due to banks	22	**3,847,752**	1,661,901
Accounts payable and other liabilities	23	**7,092,993**	7,814,601
Due to related parties	32	**191,888**	295,257
Term loans	24	**18,730,000**	12,770,000
Murabaha payable	25	**8,085,878**	10,823,538
Provision for employees' end of service benefits		**925,579**	805,014
Total liabilities		**38,874,090**	34,170,311
Equity			
Share capital	26	**80,288,257**	80,288,257
Share premium	26	**23,803,273**	27,142,826
Treasury shares	27	**(559,233)**	(559,233)
Legal reserve	28	**69,034**	375,497
Voluntary reserve	28	**69,034**	375,497
Foreign currency translation reserve		**(1,101,706)**	(182,484)
Fair value reserve		**6,048,357**	5,552,670
(Accumulated losses)/retained earnings		**580,940**	(4,090,547)
Total equity attributable to the shareholders of the parent company		**109,197,956**	108,902,483
Non-controlling interests		**43,537,893**	44,735,533
Total equity		**152,735,849**	153,638,016
Total liabilities and equity		**191,609,939**	187,808,327

Jassem Hasan Zainal
Acting Chairman

The notes set out on pages 12 to 69 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2016

	Equity attributable to the shareholders of the parent company										
	Share capital KD	Share premium KD	Treasury shares KD	Legal reserve KD	Voluntary reserve KD	Foreign currency translation reserve KD	Fair value reserve KD	(Accumulated losses)/ retained earnings KD	Sub-Total KD	Non-controlling interests KD	Total KD
Balance at 1 January 2016	80,288,257	27,142,826	(559,233)	375,497	375,497	(182,484)	5,552,670	(4,090,547)	108,902,483	44,735,533	153,638,016
Write off accumulated losses (note 29)	-	(3,339,553)	-	(375,497)	(375,497)	-	-	4,090,547	-	-	-
Effect of change in ownership percentage of subsidiary (note 6.1.1)	-	-	-	-	-	-	-	47,591	47,591	(47,591)	-
Transactions with shareholders	-	(3,339,553)	-	(375,497)	(375,497)	-	-	4,138,138	47,591	(47,591)	-
Profit for the year	-	-	-	-	-	-	-	671,417	671,417	1,925,027	2,596,444
Other comprehensive (loss)/income:											
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(919,222)	-	-	(919,222)	(3,075,076)	(3,994,298)
Available for sale investments:											
- Net change in fair value arising during the year	-	-	-	-	-	-	(707,834)	-	(707,834)	-	(707,834)
- Transferred to consolidated statement of profit or loss on sale	-	-	-	-	-	-	(18,392)	-	(18,392)	-	(18,392)
- Transferred to consolidated statement of profit or loss on impairment	-	-	-	-	-	-	1,221,913	-	1,221,913	-	1,221,913
Total other comprehensive (loss)/ income for the year	-	-	-	-	-	(919,222)	495,687	-	(423,535)	(3,075,076)	(3,498,611)
Total comprehensive (loss)/income for the year	-	-	-	-	-	(919,222)	495,687	671,417	247,882	(1,150,049)	(902,167)
Transfer to reserves	-	-	-	69,034	69,034	-	-	(138,068)	-	-	-
Balance at 31 December 2016	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

The notes set out on pages 12 to 69 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
Year ended 31 December 2016

	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 2015	80,288,257	27,142,826	(557,080)	375,497	375,497	12,717	2,184,188	2,923,699	112,745,601	43,149,864	155,895,465
Purchase of treasury shares	-	-	(2,153)	-	-	-	-	-	(2,153)	-	(2,153)
Disposal of partial interests in subsidiaries	-	-	-	-	-	-	-	-	-	749,009	749,009
Effect of change in ownership percentage of subsidiary	-	-	-	-	-	-	-	(15,876)	(15,876)	15,876	-
Transactions with shareholders	-	-	(2,153)	-	-	-	-	(15,876)	(18,029)	764,885	746,856
(Loss)/profit for the year	-	-	-	-	-	-	-	(6,998,370)	(6,998,370)	1,355,760	(5,642,610)
Other comprehensive (loss)/income:											
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(195,201)	-	-	(195,201)	(534,976)	(730,177)
Available for sale investments:											
- Net change in fair value arising during the year	-	-	-	-	-	-	(3,707,557)	-	(3,707,557)	-	(3,707,557)
- Transferred to consolidated statement of profit or loss on sale	-	-	-	-	-	-	(191,218)	-	(191,218)	-	(191,218)
- Transferred to consolidated statement of profit or loss on impairment	-	-	-	-	-	-	7,267,257	-	7,267,257	-	7,267,257
Total other comprehensive (loss)/ income for the year	-	-	-	-	-	(195,201)	3,368,482	-	3,173,281	(534,976)	2,638,305
Total comprehensive (loss)/income for the year	-	-	-	-	-	(195,201)	3,368,482	(6,998,370)	(3,825,089)	820,784	(3,004,305)
Balance at 31 December 2015	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

The notes set out on pages 12 to 69 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	**31 Dec. 2016 KD**	31 Dec. 2015 KD
OPERATING ACTIVITIES			
Profit / (Loss) for the year		**2,596,444**	(5,642,610)
Adjustments:			
Interest income		**(504,489)**	(253,066)
Dividend income	8	**(2,891,755)**	(2,705,198)
Loss on disposal of subsidiaries		**-**	102,494
Impairment of available sale investments	17	**1,221,913**	7,267,257
Impairment of investment in real estate under development		**134,161**	657,270
Gain/(loss) on sale of available for sale investments		**(15,688)**	357,943
Share of results of associates	18	**(2,060,089)**	(1,377,871)
Provision for instalment credit debtors		**288,524**	549,168
Finance costs		**1,432,404**	1,016,472
Depreciation		**293,562**	290,332
Provision for employees' end of service benefits		**285,556**	256,986
		780,543	519,177
Changes in operating assets and liabilities:			
Instalment credit debtors		**2,087,564**	505,989
Investments at fair value through profit or loss		**(94,599)**	(1,079,521)
Accounts receivable and other assets		**824,063**	(3,402,726)
Due from / to related parties		**(531,279)**	195,932
Accounts payable and other liabilities		**(721,610)**	694,699
Employees' end of service benefits paid		**(88,645)**	(173,404)
Net cash from/(used in) operating activities		**2,256,037**	(2,739,854)
INVESTING ACTIVITIES			
Purchase of property and equipment	21	**(139,708)**	(472,270)
Purchase of available for sale investments	17	**(27,760,164)**	(23,357,632)
Proceeds from sale of available for sale investments		**19,810,065**	14,572,261
Additions on real estate portfolio		**(206,451)**	-
Dividend income received		**2,891,755**	2,705,198
Dividend from associate	18	**1,958,125**	1,596,731
Interest income received		**504,489**	253,066
Net cash used in investing activities		**(2,941,889)**	(4,702,646)

The notes set out on pages 10 to 71 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2016

	Notes	**2016 KD**	2015 KD
FINANCING ACTIVITIES			
Net change in due to banks		**2,185,851**	(1,021,347)
Net increase in term loans		**5,960,000**	1,110,000
Murabaha (repaid) / obtained		**(2,737,660)**	5,623,538
Purchase of treasury shares		**-**	(2,153)
(Payments) / Proceeds from acquisition / disposal of partial		**(387,543)**	749,009
interests in subsidiaries		**(1,432,404)**	(1,016,472)
Finance costs paid			
Net cash from financing activities		**3,588,244**	5,442,575
Net increase/(decrease) in cash and cash equivalents		**2,902,392**	(1,999,925)
Foreign currency adjustment		**(106,103)**	(259,080)
Cash and cash equivalents at beginning of the year	12	**7,307,640**	9,566,645
Cash and cash equivalents at end of the year	12	**10,103,929**	7,307,640

Non-cash transaction:

Investment in real estate under development		**-**	4,765,920
Accounts receivable and other assets		**-**	(2,165,920)
Investment in associates		**-**	(2,600,000)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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 details of the subsidiaries are noted in note (6).

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 sukuks and other securities issued by local and foreign government and private companies, institutions and bodies and practice the related financial mediation and brokerage activities.

- Manage the funds of individuals and local or foreign public and private companies, institutions and bodies and invest these funds in various economic sectors through investment and real estate portfolios inside or outside the State of Kuwait.

- Provide economic advice related to investment and hold courses, issue brochures of various investment activities for individuals, local and foreign companies and institutions.

- Prepare and provide technical, economic and assessment studies and consultations and prepare feasibility studies for various investment activities and other studies, examining the technical, financial and administrative aspects related to these activities for its account or for the account of third parties inside or outside the State of Kuwait.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

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 CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

1. Incorporation and activities (continued)

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

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

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

On 30 June 2016, the parent company's board of directors held a meeting and decided to separate the powers of the chief executive officer and the chairman of the company in accordance with the Companies Law requirements, where as Mr. Jassem Hasan Zainal will be acting chairman of the company. Subsequent to date of the consolidated statement of financial position, the Parent Company's board of directors elected a chairman and vice chairman.

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 these consolidated financial statements for issue on 30 March 2017. The general assembly of the parent company's shareholders has the power to amend these consolidated financial statements after issuance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

2. Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, as modified for use by the Government of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all IFRSs except for the IAS 39 requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait requirement for a minimum general provision of 1% for cash facilities and 0.5% for non-cash facilities. These rates are to be applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period.

3. Changes in accounting policies

3.1 New and amended standards adopted by the group
A number of new and revised standards are effective for annual periods beginning on or after 1 January 2016 which have been adopted by the group but did not have any significant impact on the consolidated financial position or the results for the year. Information on these new standards is presented below:

Standard or Interpretation	Effective for annual periods beginning
IFRS 11 Accounting for Acquisitions of Interests in Joint Operations -Amendments	1 January 2016
IAS 1 'Disclosure Initiative - Amendments	1 January 2016
IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments	1 January 2016
IAS 27 Equity Method in Separate Financial Statements - Amendments	1 January 2016
IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments	1 January 2016
Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Changes in accounting policies (continued)

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

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

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

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

IAS 1 Disclosure Initiative – Amendments

The Amendments to IAS 1 make the following changes:

- *Materiality*: The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.
- *Statement of financial position and statement of profit or loss and other comprehensive income*: The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.
- *Notes*: The amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

3 Changes in accounting policies (continued)
3.1 New and amended standards adopted by the group (continued)

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

IFRS 10, IFRS 12 and IAS 28 'Investment Entities: Applying the Consolidation Exception - Amendments
The Amendments are aimed at clarifying the following aspects:

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

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

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

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

Annual Improvements to IFRSs 2012–2014 Cycle
(i) *Amendments to* IFRS 5 - Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued
(ii) *Amendments to IFRS 7* - Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements
(iii) *Amendments to IAS 34* - Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Changes in accounting policies (continued)

3.2 IASB Standards issued but not yet effective

At the date of authorisation of these consolidated financial statements, 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 consolidated financial statements.

Standard or Interpretation	Effective for annual periods beginning
IAS 7 Statement of Cash Flows- Amendments	1 January 2017
IAS 12 Income Taxes - Amendments	1 January 2017
IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments	No stated date
IFRS 4 and IFRS 9 - Amendments	1 January 2018
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 2017 and 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Changes in accounting policies (continued)

3.2 IASB Standards issued but not yet effective (continued)

The Amendments:

- require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment 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.

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

The Amendments to IAS 12make the following changes:

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

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

The Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (٢٠١١) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

3 Changes in accounting policies (continued)
3.2 IASB Standards issued but not yet effective (continued)

IFRS 4 and IFRS 9 - Amendments
The Amendments provide entities that issue insurance contracts with temporary accounting solutions for the practical challenges of implementing IFRS 9 before the forthcoming new Insurance Contracts Standard.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

3 Changes in accounting policies (continued)
3.2 IASB Standards issued but not yet effective (continued)

The standard includes important guidance, such as
- Contracts involving the delivery of two or more goods or services – when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts
- Timing – whether revenue is required to be recognized over time or at a single point in time
- Variable pricing and credit risk – addressing how to treat arrangements with variable or contingent (e.g. performance-based) pricing, and introducing an overall constraint on revenue
- Time value – when to adjust a contract price for a financing component
  - 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 CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

3 Changes in accounting policies (continued)
3.2 IASB Standards issued but not yet effective (continued)

Annual Improvements to IFRSs 2014-2016 Cycle
(i) *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. Amendment is effective for annual periods beginning on or after1 January 2017.
(ii) *Amendments to IAS 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 after1 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. Significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

4.1 Basis of preparation
These consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional currency of the parent company and are prepared under the historical cost convention, except for certain investments at fair value through profit or loss and available for sale investments that are measured at fair value.

The group has elected to present the "statement of profit or loss and other comprehensive income" in two statements: the "statement of profit or loss" and "statement of profit or loss and other comprehensive income".

4.2 Basis of consolidation
The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial statements of the subsidiaries are prepared for reporting dates which are typically not more than three months from that of the parent company, using consistent accounting policies. Adjustments are made for the effect of any significant transactions or events that occur between that date and the reporting date of the parent company's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

4. Significant accounting policies (continued)
4.2 Basis of consolidation (continued)

All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the group. The group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

When a controlling interest in the subsidiaries is disposed of, the difference between the selling price and the net asset value plus cumulative translation difference and goodwill is recognised in the consolidated statement of profit or loss.

4.3 Business combinations
The group applies the acquisition method in accounting for business combinations. The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

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

The group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

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

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in the consolidated statement of profit or loss immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

4. Significant accounting policies (continued)

4.4 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses.

4.5 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured, regardless of when payment is made.

Revenue arises from rendering of services and is measured by reference to the fair value of consideration received or receivable, excluding taxes, rebates, and trade discounts. The group applies the revenue recognition criteria set out below to each separately identifiable component of revenue.

4.5.1 Income from instalment credit debtors

Interest on instalment credit facilities is calculated at the time of a contract with the customer. The customer repays the total amount due (including interest) by equal instalments over the period of the contract. The interest is allocated over the life of the agreement using the "effective interest" method. Interest relating to outstanding instalments is considered as deferred income and is included in the consolidated statement of financial position as a deduction from instalment credit debtors.

4.5.2 Interest income

Interest income is recognised using the effective interest method.

4.5.3 Rental income

Rental income is recognised on a straight-line basis over the period of the rental contracts.

4.5.4 Dividend income

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

4.5.5 Fee income from providing transaction services

Fees arising for rendering specific advisory services, brokerage services, equity and debt placement transactions for a third party or arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

4.6 Operating expenses

Operating expenses are recognised in consolidated statement of profit or loss upon utilisation of the service or at the date of their origin.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

4. Significant accounting policies (continued)

4.7 Finance costs

Finance costs are recognised on a time proportion basis taking into account the outstanding balance of borrowing payable and applicable interest rate.

Finance costs that are directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Capitalisation of finance costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognised as an expense in the period in which they are incurred.

4.8 Taxation

4.8.1 National Labour Support Tax (NLST)

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the group attributable to the shareholders of the parent company. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

4.8.2 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

4.8.3 Zakat

Contribution to Zakat is calculated at 1% of the profit of the group attributable to the shareholders of the parent company in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

Under the NLST and Zakat regulations, no carry forward of losses to the future years or any carry back to prior years is permitted.

4.9 Segment reporting

The group has four operating segments: instalment credit, investments, financial brokerage and real estate. In identifying these operating segments, management generally follows the group's service lines representing its main products and services. Each of these operating segments is managed separately as each requires different approaches and other resources. All inter-segment transfers are carried out at arm's length prices.

For management purposes, the group uses the same measurement policies as those used in its financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

4. Significant accounting policies (continued)

Notes to the consolidated financial statements (continued)
4 Significant accounting policies (continued)

4.10 Investment in associates
An associate is an entity over which the group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The group's investment in associates is accounted for under the equity method of accounting, i.e. on the statement of financial position at cost plus post-acquisition changes in the group's share of the net assets of the associate, less any impairment and the consolidated statement of profit or loss reflects the group's share of the results of operations of associate.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the parent company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated statement of profit or loss.

Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the group's share in the associate arising from changes in the associate's equity. Changes in the group's share in associate's equity are recognised immediately in the consolidated statement of changes in equity.

When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions with associate are eliminated to the extent of the group's share in the associate. Unrealised losses are also eliminated unless the transactions provide evidence of impairment in the asset transferred.

An assessment for impairment of investment in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

The associate's financial statements are prepared either to the parent company's reporting date or to a date not earlier than three months of the parent company's reporting date using consistent accounting policies. Where practicable, adjustments are made for the effect of significant transactions or other events that occurred between the reporting date of the associates and the parent company's reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

4. Significant accounting policies (continued)
4.10 Investment in associates (continued)

Upon loss of significant influence over the associate, the group measures and recognises any retaining investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in the consolidated statement of profit or loss.

4.11 Financial instruments

4.11.1 Recognition, initial measurement and derecognition
Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

A financial asset (or, where applicable a part of financial asset or part of group of similar financial assets) is derecognised when:
- rights to receive cash flows from the assets have expired;
- the group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either

(a) the group has transferred substantially all the risks and rewards of the asset or
(a) the group has neither transferred nor retained substantially all risks and rewards of the asset but has transferred control of the asset.

Where the group has transferred its rights to receive cash flows from an asset or has entered into a pass- through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the group's continuing involvement in the asset.

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

4.11.2 Classification and subsequent measurement of financial assets
For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:
- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

4. Significant accounting policies (continued)
4.11 Financial instruments (continued)
4.11.2 Classification and subsequent measurement of financial assets (continued)

- ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

The group categorises loans and receivables into following categories:

- Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, balances with banks and other financial institutions and short term deposits due within three months which are subject to an insignificant risk of changes in value.

- Instalment credit debtors
Instalment credit debtors are stated in the consolidated financial position at amortised cost, net of specific and general provisions. Specific provisions are made to reduce impaired receivables to their estimated recoverable amount and general provisions are made at a rate of 1% on instalment credit debtors for which no specific provisions were made, to provide for losses known from experience to exist, but not yet specifically identifiable, in accordance with the Central Bank of Kuwait instructions in that respect. The recoverable amounts are based on estimated future cash flows discounted at the original effective interest rate on a portfolio basis for groups of similar debtors.

- Accounts receivable and other assets
Accounts receivable and other assets are stated at original amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred

- Due from related parties
Due from related parties are financial assets originated by the group by providing money directly to the borrower that have fixed or determinable payments and are not quoted in an active market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

4. Significant accounting policies (continued)
4.11 Financial instruments (continued)
4.11.2 Classification and subsequent measurement of financial assets (continued)

- ***Financial assets at FVTPL***

Classification of investments as financial assets at FVTPL depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of consolidated statement of profit or loss in the management accounts, they are classified as designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category.

Assets in this category are measured at fair value with gains or losses recognised in consolidated statement of profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

- ***AFS financial assets***

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in consolidated statement of profit or loss. All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the fair value reserve within equity, except for impairment losses, and foreign exchange differences on monetary assets, which are recognised in statement of profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to consolidated statement of profit or loss and presented as a reclassification adjustment within other comprehensive income.

The group assesses at each reporting date whether there is objective evidence that a financial asset available for sale or a group of financial assets available for sale is impaired. In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss is removed from other comprehensive income and recognised in the consolidated statement of profit or loss.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in consolidated statement of profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

4.11.3 Classification and subsequent measurement of financial liabilities
The group's financial liabilities include due to banks, accounts payable and other liabilities, due to related parties, term loans and murabaha payable.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

4. Significant accounting policies (continued)
4.11 Financial instruments (continued)
4.11.3 Classification and subsequent measurement of financial liabilities (continued)

- ***Financial liabilities other than at fair value through profit or loss***

These are stated using effective interest rate method. Due to banks, accounts payable and other liabilities, due to related parties, term loans and murabaha payable are classified as financial liabilities other than at FVTPL.

Term loans and due to banks
All term loans and due to banks are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Payables and other liabilities
Payables and other liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed or not.

Due to related parties
Due to related parties are financial liabilities arising in the normal courses of the business and are not quoted in an active market.

Murabaha payable
Murabaha payable represents amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payable is stated at the gross amount of the payable, net of deferred finance cost. Deferred finance cost is expensed on a time apportionment basis taking into account the borrowing rate attributable and the balance outstanding.

All the profit-related charges are included within finance costs.

4.12 Amortised cost of financial instruments
This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

4.13 Trade and settlement date accounting
All ‘regular way’ purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

4. Significant accounting policies (continued)

4.15 Fair value of financial instruments
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

4.16 Impairment of financial assets
An assessment is made at each financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of profit or loss. Impairment is determined as follows:

i) For assets carried at fair value, impairment is the difference between cost and fair value;
ii) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
iii) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Except for reversal of impairment losses related to equity instruments classified as available for sale, all other impairment reversals are recognised in the consolidated statement of profit or loss to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date. Impairment reversals in respect of equity instruments classified as available for sale are recognised in fair value reserve.

4.17 Impairment testing of goodwill and non-financial assets
For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the group's management as equivalent to its operating segments) are tested for impairment at least annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

4. Significant accounting policies (continued)

4.17 Impairment testing of goodwill and non-financial assets (continued)

All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

4.18 Properties held for trading

Properties held for trading are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each property to its present condition including identifiable finance cost. Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

4.19 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the cost model. Investment properties are initially measured at cost, being the purchase price and any directly attributable expenditure for a purchased investment property and cost at the date when construction or development is complete for a self constructed investment property.

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses. Gains and losses arising from the sale of investment properties are included in the consolidated statement of profit or loss.

The estimated useful life for the calculation of depreciation, excluding land, is 25 years using straight line method. The carrying amounts are reviewed at each reporting date on an individual basis to assess whether they are recorded in excess of their recoverable amount. Provision for impairment losses, if any, are made where carrying values exceed the recoverable amount.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

4. Significant accounting policies (continued)

4.20 Property and equipment

Land is stated at cost less any impairment losses based upon the reports of independent professional valuers.

Capital expenditure on assets in the course of construction are classified as assets under construction. Such costs are subsequently charged to the consolidated statement of profit or loss if the project is abandoned, or, if the project is, completed, are capitalised and transferred to the appropriate property and equipment category, from which time depreciation is charged using the rate applicable to the category concerned. Interest incurred on funds specifically obtained to finance construction activities are capitalised using the actual interest rate incurred during construction.

Other property and equipment assets are stated at cost less accumulated depreciation. The group depreciates these assets using the straight-line method at rates estimated to fully depreciate the cost of the property and equipment over their expected useful lives.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property. In the case of leasehold property, expected useful lives are determined by reference to comparable owned assets or over the term of the lease, if shorter.

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of profit or loss.

4.21 Impairment testing of non financial assets

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

4. Significant accounting policies (continued)

4.22 Provisions, contingent assets and contingent liabilities
Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

4.23 Equity, reserves and dividend payments
Share capital represents the nominal value of shares that have been issued and paid up.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Legal and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the Companies' Law and the parent company's memorandum of incorporation and articles of association, as amended.

Other components of equity include the following:
- Foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the group's foreign entities into KD.
- Fair value reserve – comprises valuation gains and losses relating to available for sale financial assets.

Retained earnings include all current and prior period retained profits and losses.

All transactions with owners are recorded separately within equity.

Dividend distributions payable to shareholders are included in other liabilities when the dividends have been approved in a general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

4. Significant accounting policies (continued)

4.24 Treasury shares

Treasury shares consist of the parent company's own issued shares that have been reacquired by the group and not yet reissued or cancelled. Treasury shares are accounted for under cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. Treasury shares are not entitled to cash dividends that the group may distribute. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

When the treasury shares are reissued, gains are recorded directly in "treasury shares reserve" in the shareholders' equity. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and legal reserve. Subsequent to this, should profits arise from sale of treasury shares an amount is transferred to reserves and retained earnings equal to the loss previously charged to this account.

4.25 Related parties transactions

Related parties are associates, major shareholders, board of directors, executive staff, their family members and the companies owned by them. All related party transactions are carried out with the approval of the group's management.

4.26 End of service benefits

The group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date.

With respect to its Kuwaiti national employees, the group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. The group's obligations are limited to these contributions, which are expensed when due.

4.27 Foreign currency translation

4.27.1 Functional and presentation currency

The consolidated financial statements are presented in currency Kuwait Dinar (KD), which is also the functional currency of the parent company. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

4.27.2 Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in consolidated statement of profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

4. Significant accounting policies (continued)
4.27 Foreign currency translation (continued)

4.27.3 Foreign operations
In the group's financial statements, all assets, liabilities and transactions of group entities with a functional currency other than the KD are translated into KD upon consolidation. The functional currency of the entities in the group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to the consolidated statement of profit or loss and are recognised as part of the gain or loss on disposal.

4.28 Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the group and accordingly are not included in these consolidated financial statements.

5. Significant management judgements and estimation uncertainty

The preparation of the group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

5.1 Significant management judgments
In the process of applying the group's accounting policies, management has made the following significant judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

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

The group classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making.

Classification of financial assets as at fair value through profit or loss depends on how management monitors the performance of these financial assets. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as designated at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

5. Significant management judgements and estimation uncertainty (continued)
5.1 Significant management judgments (continued)

Classification of assets as loans and receivables depends on the nature of the asset. If the group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

All other financial assets are classified as available for sale.

5.1.2 Fair values of assets and liabilities acquired
The determination of the fair value of the assets, liabilities and contingent liabilities as a result of business combination requires significant judgement.

5.1.3 Control assessment
When determining control, management considers whether the group has the practical ability to direct the relevant activities of an investee on its own to generate returns for itself. The assessment of relevant activities and ability to use its power to affect variable return requires considerable judgement.

5.2 Estimates uncertainty
Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

5.2.1 Impairment of assets with definite lives
At the financial position date, the group's management assesses, whether there is any indication that assets with definite lives may be impaired. The recoverable amount of an asset is determined based on the "value in use" method. This method uses estimated cash flow projections over the estimated useful life of the asset.

5.2.2 Impairment of associates
After application of the equity method, the group determines whether it is necessary to recognise any impairment loss on the group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of profit or loss.

5.2.3 Impairment of available for sale investments
The group treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

5. Significant management judgements and estimation uncertainty (continued)
5.2 Estimates uncertainty (continued)

5.2.4 Impairment of receivables
An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

5.2.5 Classification of real estate property
Management decides on acquisition of a real estate property whether it should be classified as trading, property held for development or investment property.

The group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

The group classifies property as property under development if it is acquired with the intention of development.

The group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

5.2.6 Useful lives of depreciable assets
Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and equipment.

5.2.7 Business combinations
Management uses valuation techniques in determining the fair values of the various elements of a business combination. Particularly, the fair value of contingent consideration is dependent on the outcome of many variables that affect future profitability.

5.2.8 Fair value of financial instruments
Management applies valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

5.2.9 Significant influence
Significant influence exists when the size of an entity's own voting rights relative to the size and dispersion of other vote holders, give the entity the practical ability unilaterally to direct the relevant activities of the company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

6. Subsidiaries

6.1 Composition of the group
Set out below are details of subsidiaries held directly by the group:

Company name	Voting capital held as at 31 December 2016	2015	Place of incorporation	Principal activities	Reporting date
Al-Addan Real Estate Co. – SPC	**100%**	100%	Kuwait	Trading in all real estate activities	31 December 2016
Arzan CC for Collection Co. – SPC	**100%**	100%	Kuwait	Trading in real estate activities and collecting money on behalf of others	31 December 2016
Kuwait Invest Real Estate Co.– WLL	**51%**	51%	Kuwait	Real estate services	31 December 2016
International Finance Company – SAL	**100%**	100%	Lebanon	Finance services including financing, management and brokerage	30 September 2016
IFA Securities Brokerage Co.- SAE	**84.55%**	84.55%	Egypt	Brokerage services	30 September 2016
International Financial Advisers Company – WLL	**65.20%**	65.20%	Jordan	Brokerage services	30 September 2016
Saudi Invest Real Estate Co. – WLL	**100%**	100%	Saudi Arabia	Real estate services	31 December 2016
Arzan Wealth (DIFC) Co. Limited	**100%**	100%	United Arab Emirates	Financial advisory services	30 September 2016
Arzan VC for Projects Management –WLL	**99%**	99%	Kuwait	Projects management	31 December 2016
Arzan VC I Ltd.	**100%**	100%	United Arab Emirates	-	31 December 2016
Hilltop 1 UK Limited	**6.61%**	6.61%	United Kingdom	Real estate	30 September 2016
Hilltop 3 UK Limited	**17.52%**	17.52%	United Kingdom	Real estate	30 September 2016
Hilltop 4 UK Limited	**9.95%**	9.95%	United Kingdom	Real estate	30 September 2016
Hilltop 5 UK Limited (6.1.1)	**35.98%**	30.89%	United Kingdom	Real estate	30 September 2016
Hilltop Norway Limited	**9.86%**	9.86%	Norway	Real estate	30 September 2016
Hilltop Germany Limited	**7.66%**	7.66%	Germany	Real estate	30 September 2016
HI Equity Company Ltd.	**99.29%**	99.29%	Cayman Islands	Real estate	30 September 2016
HI Debt Company Ltd.	**99.29%**	99.29%	Cayman Islands	Real estate	30 September 2016
Arzan Capital (6.1.2)	**100%**	-	United Arab Emirates	Holding Company	31 December 2016
Arzan AM Limited (6.1.3)	**100%**	-	United Arab Emirates	General Trading	31 December 2016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

6. Subsidiaries (continued)

6.1 Composition of the group (continued)

6.1.1 During the year, the group participated in the capital call to increase the share capital of Hilltop 5 UK Limited. Since the other shareholders did not participate in the increase of the share capital of the investee, the ownership interest of the group increased from 30.89% to 35.98%. This change in ownership resulted in a profit of KD47,591 and is recognised in the shareholders' equity.

6.1.2 During the year, the group established a new subsidiary under the name of Arzan Capital, in the United Arab Emirates having a capital of KD302,675 representing its 100% ownership interest in the subsidiary.

6.1.3 During the year, the group established a new subsidiary under the name of Arzan AM Limited, in the United Arab Emirates having a capital of AED1 representing its 100% ownership interest in the subsidiary.

The group considers that it controls Hilltop 1 UK Limited, Hilltop 3 UK Limited, Hilltop 4 UK Limited, Hilltop 5 UK Limited, Hilltop Germany Limited and Hilltop Norway Limited even though it owns less than 50% ownership interests as a result of contractual arrangement with the other investors in these entities. The group has the majority voting rights through class "A" shares in the respective companies, and its approval is required for all major operational decisions.

6.2 Subsidiaries with material non-controlling interests:

The group includes the following subsidiaries with material non-controlling interests (NCI):

Name	Proportion of ownership interests and voting rights held by the NCI		Results allocated to NCI		Accumulated NCI	
	31 Dec. 2016 %	31 Dec. 2015 %	**31 Dec. 2016 %**	31 Dec. 2015 %	**31 Dec. 2016 %**	31 Dec. 2015 %
Kuwait Invest Real Estate Co. – WLL	**49**	49	**(180,332)**	(128,082)	**5,112,285**	5,292,616
Hilltop 1 UK Limited	**93.39**	93.39	**163,379**	209,048	**2,709,756**	3,014,468
Hilltop 3 UK Limited	**82.48**	82.48	**444,441**	672,709	**8,308,275**	9,881,957
Hilltop 4 UK Limited	**90.05**	90.05	**802,746**	148,441	**6,878,660**	7,951,700
Hilltop 5 UK Limited	**64.02**	69.11	**(2,815)**	(1,388)	**5,422,544**	5,562,952
Hilltop Norway Limited	**90.14**	90.14	**379,824**	244,544	**6,536,976**	6,513,728
Hilltop Germany Limited	**92.34**	92.34	**295,492**	189,002	**6,743,293**	6,758,960

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

6. Subsidiaries (continued)
6.2 Subsidiaries with material non-controlling interests (continued)

Summarised financial information for subsidiaries with material non-controlling interests, before intergroup elimination is set out below:

a) Kuwait Invest Real Estate Co. – WLL

	31 Dec. 2016 KD	31 Dec. 2015 KD
Non-current assets	**10,452,955**	10,808,615
Current assets	**7,522**	7,522
Total assets	**10,460,477**	10,816,137
Current liabilities	**27,243**	14,879
Total liabilities	**27,243**	14,879
Equity attributable to the shareholders of the parent company	**5,320,949**	5,508,642
Non-controlling interests	**5,112,285**	5,292,616
Total equity	**10,433,234**	10,801,258

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Revenue	**(355,660)**	(248,027)
Expenses and other charges	**(12,364)**	(13,365)
Loss for the year attributable to the shareholders of the parent company	**(187,692)**	(133,310)
Loss for the year attributable to NCI	**(180,332)**	(128,082)
Loss for the year	**(368,024)**	(261,392)
Total comprehensive loss for the year attributable to the shareholders of the parent company	**(187,692)**	(133,310)
Total comprehensive loss for the year attributable to NCI	**(180,332)**	(128,082)
Total comprehensive loss for the year	**(368,024)**	(261,392)
Net cash flow from operating activities	**-**	-
Net cash inflows	**-**	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

6. Subsidiaries (continued)
6.2 Subsidiaries with material non-controlling interests (continued)

b) Hilltop 1 UK Limited

	31 Dec. 2016 KD	31 Dec. 2015 KD
Non-current assets	**2,667,471**	3,079,867
Current assets	**235,376**	158,930
Total assets	**2,902,847**	3,238,797
Current liabilities	**1,175**	10,831
Total liabilities	**1,175**	10,831
Equity attributable to the shareholders of the parent company	**191,916**	213,498
Non-controlling interests	**2,709,756**	3,014,468
Total equity	**2,901,672**	3,227,966

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Revenue	**181,005**	232,094
Expenses and other charges	**(6,055)**	(8,240)
Profit for the year attributable to the shareholders of the parent company	**11,571**	14,806
Profit for the year attributable to NCI	**163,379**	209,048
Profit for the year	**174,950**	223,854
Other comprehensive loss for the year attributable to the shareholders of the parent company	**(36,520)**	-
Other comprehensive loss for the year attributable to NCI	**(515,640)**	-
Total other comprehensive loss for the year	**(552,160)**	-
Total comprehensive income / (loss) for the year attributable to the shareholders of the parent company	**(24,949)**	14,806
Total comprehensive income / (loss) for the year attributable to NCI	**(352,261)**	209,048
Total comprehensive income /(loss) for the year	**(377,210)**	223,854
Net cash flow used in investing activities	**(2,710)**	(9,578)
Net cash outflows	**(2,710)**	(9,578)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

6. Subsidiaries (continued)
6.2 Subsidiaries with material non-controlling interests (continued)

c) Hilltop 3 UK Limited

	31 Dec. 2016 KD	31 Dec. 2015 KD
Non-current assets	**9,493,988**	11,119,543
Current assets	**579,812**	862,691
Total assets	**10,073,800**	11,982,234
Current liabilities	**966**	1,490
Total liabilities	**966**	1,490
Equity attributable to the shareholders of the parent company	**1,764,559**	2,098,787
Non-controlling interests	**8,308,275**	9,881,957
Total equity	**10,072,834**	11,980,744

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Revenue	**543,951**	825,879
Expenses and other charges	**(5,117)**	(10,296)
Profit for the year attributable to the shareholders of the parent company	**94,393**	142,874
Profit for the year attributable to NCI	**444,441**	672,709
Profit for the year	**538,834**	815,583
Other comprehensive loss for the year attributable to the shareholders of the parent company	**(350,445)**	-
Other comprehensive loss for the year attributable to NCI	**(1,650,039)**	-
Total other comprehensive loss for the year	**(2,000,484)**	-
Total comprehensive (loss)/income for the year attributable to the shareholders of the parent company	**(256,052)**	142,874
Total comprehensive (loss)/income for the year attributable to NCI	**(1,205,598)**	672,709
Total comprehensive (loss)/income for the year	**(1,461,650)**	815,583
Net cash flow used in investing activities	**(163,060)**	(6,197)
Net cash outflows	**(163,060)**	(6,197)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

6. Subsidiaries (continued)

6.2 Subsidiaries with material non-controlling interests (continued)

d) Hilltop 4 UK Limited

	31 Dec. 2016 KD	31 Dec. 2015 KD
Non-current assets	**6,885,980**	7,848,790
Current assets	**753,813**	981,429
Total assets	**7,639,793**	8,830,219
Current liabilities	**1,166**	-
Total liabilities	**1,166**	-
Equity attributable to the shareholders of the parent company	**759,967**	878,519
Non-controlling interests	**6,878,660**	7,951,700
Total equity	**7,638,627**	8,830,219

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Revenue	**898,103**	197,997
Expenses and other charges	**(6,668)**	(33,156)
Profit for the year attributable to the shareholders of the parent company	**88,689**	16,400
Profit for the year attributable to NCI	**802,746**	148,441
Profit for the year	**891,435**	164,841
Other comprehensive loss for the year attributable to the shareholders of the parent company	**(148,189)**	-
Other comprehensive loss for the year attributable to NCI	**(1,341,291)**	-
Total other comprehensive (loss)/income for the year	**(1,489,480)**	-
Total comprehensive (loss)/income for the year attributable to the shareholders of the parent company	**(59,500)**	16,400
Total comprehensive (loss)/income for the year attributable to NCI	**(538,545)**	148,441
Total comprehensive (loss)/income for the year	**(598,045)**	164,841
Net cash flow used in investing activities	**(5,578)**	(9,274)
Net cash outflows	**(5,578)**	(9,274)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

6. Subsidiaries (continued)
6.2 Subsidiaries with material non-controlling interests (continued)

e) Hilltop 5 UK Limited

	31 Dec. 2016 KD	31 Dec. 2015 KD
Non-current assets	**8,698,843**	8,311,301
Current assets	**15,674**	438,282
Total assets	**8,714,517**	8,749,583
Non-current liabilities	**-**	700,220
Current liabilities	**244,438**	-
Total liabilities	**244,438**	700,220
Equity attributable to the shareholders of the parent company	**3,047,535**	2,486,411
Non-controlling interests	**5,422,544**	5,562,952
Total equity	**8,470,079**	8,049,363

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Revenue	**64**	64
Expenses and other charges	**(4,461)**	(2,072)
Loss for the year attributable to the shareholders of the parent company	**(1,582)**	(620)
Loss for the year attributable to NCI	**(2,815)**	(1,388)
Loss for the year	**(4,397)**	(2,008)
Other comprehensive income for the year attributable to the shareholders of the parent company	**13,517**	-
Other comprehensive income for the year attributable to NCI	**24,052**	-
Total other comprehensive income for the year	**37,569**	-
Total comprehensive income/(loss)for the year attributable to the shareholders of the parent company	**11,935**	(620)
Total comprehensive income/(loss)for the year attributable to NCI	**21,237**	(1,388)
Total comprehensive income/(loss) for the year	**33,172**	(2,008)
Net cash flow used in investing activities	**(7,664)**	(11,066)
Net cash outflows	**(7,664)**	(11,066)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

6. Subsidiaries (continued)

6.2 Subsidiaries with material non-controlling interests (continued)

f) Hilltop Norway Limited

	31 Dec. 2016 KD	31 Dec. 2015 KD
Non-current assets	**7,077,363**	7,077,363
Current assets	**458,984**	262,078
Total assets	**7,536,347**	7,339,441
Current liabilities	**284,322**	91,096
Total liabilities	**284,322**	91,096
Equity attributable to the shareholders of the parent company	**715,049**	734,617
Non-controlling interests	**6,536,976**	6,513,728
Total equity	**7,252,025**	7,248,345

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Revenue	**427,622**	435,964
Expenses and other charges	**(6,251)**	(163,841)
Profit for the year attributable to the shareholders of the parent company	**41,547**	27,579
Profit for the year attributable to NCI	**379,824**	244,544
Profit for the year	**421,371**	272,123
Other comprehensive income for the year attributable to the shareholders of the parent company	**363**	-
Other comprehensive income for the year attributable to NCI	**3,317**	-
Total other comprehensive income for the year	**3,680**	-
Total comprehensive income for the year attributable to the shareholders of the parent company	**41,910**	27,579
Total comprehensive income for the year attributable to NCI	**383,141**	244,544
Total comprehensive income for the year	**425,051**	272,123
Net cash flow used in investing activities	**(421)**	(174,636)
Net cash outflows	**(421)**	(174,636)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

6. Subsidiaries (continued)
6.2 Subsidiaries with material non-controlling interests (continued)

g) Hilltop Germany Limited

	31 Dec. 2016 KD	31 Dec. 2015 KD
Non-current assets	**7,150,572**	7,150,572
Current assets	**495,243**	289,948
Total assets	**7,645,815**	7,440,520
Current liabilities	**343,137**	132,351
Total liabilities	**343,137**	132,351
Equity attributable to the shareholders of the parent company	**559,385**	549,209
Non-controlling interests	**6,743,293**	6,758,960
Total equity	**7,302,678**	7,308,169

	Year ended 31 Dec. 2016 KD	Year ended 31 Dec. 2015 KD
Revenue	**325,916**	372,004
Expenses and other charges	**(5,911)**	(167,644)
Profit for the year attributable to the shareholders of the parent company	**24,513**	15,358
Profit for the year attributable to NCI	**295,492**	189,002
Profit for the year	**320,005**	204,360
Other comprehensive loss for the year attributable to the shareholders of the parent company	**(421)**	-
Other comprehensive loss for the year attributable to NCI	**(5,070)**	-
Total other comprehensive loss for the year	**(5,491)**	-
Total comprehensive income for the year attributable to the shareholders of the parent company	**24,092**	15,358
Total comprehensive income for the year attributable to NCI	**290,422**	189,002
Total comprehensive income for the year	**314,514**	204,360
Net cash flow used in investing activities	**(19,134)**	(143,512)
Net cash outflows	**(19,134)**	(143,512)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

7. Income from instalment credit debtors

	31 Dec. 2016	31 Dec. 2015
	KD	KD
Interest income from instalment credit	**929,589**	977,172
Discount, commission and fees	**329,804**	570,370
Recovery of written off balances	**622,682**	1,329,808
	1,882,075	2,877,350

8. Dividend income

	31 Dec. 2016	31 Dec. 2015
	KD	KD
From:		
Investments at fair value through profit or loss	**201,115**	263,505
Available for sale investments	**2,690,640**	2,441,693
	2,891,755	2,705,198

9 Finance costs

Finance costs relate to the group's borrowing activities including amounts due to banks, term loans and murabaha payable.

10. Basic and diluted earnings/(loss) per share

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

The parent company had no outstanding dilutive potential shares.

	31 Dec. 2016	31 Dec. 2015
	KD	KD
Profit/(loss) for the year attributable to shareholders of the parent company (KD)	**671,417**	(6,998,370)
Weighted average number of shares outstanding during the year (excluding treasury shares) – share	**796,798,664**	796,824,539
Basic and diluted earnings/(loss) per share attributable to the shareholders of the parent company – Fils	**0.843**	(8.783)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

11. Net gain on financial assets

Net gain on financial assets, analysed by category, is as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Cash and cash equivalents	**504,489**	253,066
Instalments credit debtors	**1,593,551**	2,328,182
Investments at fair value through profit or loss	**201,118**	(673,048)
Available for sale investments	**1,484,415**	(5,183,507)
Net realised and unrealised gain	**3,783,573**	(3,275,307)
Net unrealised loss recognised directly in equity	**495,687**	3,368,482
	4,279,260	93,175

12. Cash and cash equivalents

	31 Dec. 2016 KD	31 Dec. 2015 KD
Cash and bank balances	**6,536,799**	3,755,890
Term deposits – 1 to 3 months	**3,567,130**	3,551,750
	10,103,929	7,307,640

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

13. Instalment credit debtors

	31 Dec. 2016 KD	31 Dec. 2015 KD
Gross instalment credit debtors	**14,598,812**	16,725,069
Deferred income	**(1,603,010)**	(1,649,111)
	12,995,802	15,075,958
Specific provision for doubtful debts	**(1,682,970)**	(1,361,267)
General provision for doubtful debts	**(194,179)**	(219,950)
	11,118,653	13,494,741

Gross instalment credit debtors are repayable as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Within one year	**4,516,642**	7,944,698
More than a year	**10,082,170**	8,780,371
	14,598,812	16,725,069

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

13. Instalment credit debtors (continued)

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

The movement in the provision for instalment credit debtors is as follows:

	31 December 2016			31 December 2015		
	Specific provision KD	**General provision KD**	**Total KD**	Specific provision KD	General provision KD	Total KD
Opening balance	**1,361,267**	**219,950**	**1,581,217**	708,325	307,021	1,015,346
Foreign currency translation	**7,408**	**-**	**7,408**	15,862	13,641	29,503
Write off	**-**	**-**	**-**	(12,800)	-	(12,800)
Charge for the year	**288,524**	**-**	**288,524**	521,195	27,973	549,168
Transfer	**25,771**	**(25,771)**	**-**	128,685	(128,685)	-
Closing balance	**1,682,970**	**194,179**	**1,877,149**	1,361,267	219,950	1,581,217

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

Included within the gross instalment credit debtors is an amount of KD 308,514 (31 December 2015: KD 309,996) in respect of related parties (note 32). This amount is secured by way of pledge of certain local and foreign shares.

14. Investments at fair value through profit or loss

	31 Dec. 2016 KD	31 Dec. 2015 KD
Local quoted shares	**830,399**	1,763,523
Foreign quoted shares	**54,268**	69,040
Investments in managed portfolios	**5,930,206**	4,887,711
	6,814,873	6,720,274

The investments in managed portfolios are pledged against term loans (note 24).

The hierarchy for determining and disclosing the fair values of investments at fair value through profit or loss by valuations techniques is presented in Note 34.2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

15. Accounts receivable and other assets

	31 Dec. 2016 KD	31 Dec. 2015 KD
Trade receivables	**6,603,749**	6,449,085
Provision for doubtful debts	**(1,491,723)**	(1,491,723)
	5,112,026	4,957,362
Staff loans receivable	**105**	2,005
Prepayments and refundable deposits	**59,716**	60,230
Advance payments towards purchase of investments	**-**	1,137,612
Other assets	**650,102**	622,962
	5,821,949	6,780,171

16. Properties held for trading

Properties held for trading represent the group's share of investments in properties outside Kuwait.

The movement in the properties held for trading is as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Balance at 1 January	**1,934,714**	2,131,057
Sale during the year	**-**	(196,343)
	1,934,714	1,934,714
Provision for properties held for trading	**(620,767)**	(620,767)
Balance at 31 December	**1,313,947**	1,313,947

As a result of impairment testing to the carrying value of the properties no indication that an impairment is required. The impairment testing by management was based on fair value of the properties which has been determined based on two valuations obtained from independent and qualified valuers as of the date of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

17. Available for sale investments

	31 Dec. 2016 KD	31 Dec. 2015 KD
Local quoted shares	**5,609,999**	26,030,807
Local unquoted shares	**9,642,221**	8,926,157
Foreign unquoted shares	**52,032,605**	44,346,229
Investments in managed portfolios	**31,317,258**	12,003,303
Investment in managed funds	**210,607**	266,633
	98,812,690	91,573,129

The movement in the available for sale investments is as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Balance at 1 January	**91,573,129**	87,044,475
Additions during the year	**27,760,164**	23,357,632
Sale during the year	**(19,812,768)**	(15,121,421)
Change in fair value	**(707,835)**	(3,707,557)
Balance at 31 December	**98,812,690**	91,573,129

The unquoted investments include investments having a carrying value of KD 37,680,555 (31 December 2015: KD 33,246,800) stated at cost due to unavailability of reliable sources to determine their fair values. Management studies and cash flow expectations for these investments do not indicate any impairment for these investments.

Quoted and unquoted local shares and investments in managed portfolios with an aggregate carrying value of KD 44,814,770 (31 December 2015: KD 24,893,195) are pledged against due to banks, term loans and murabaha payable (notes 22, 24 and 25).

The investments in managed funds are carried at net asset value provided by the fund managers which represent the best estimate of fair value available for these investments.

During the year, the group recognised an impairment loss of KD 1,221,913 (31 December 2015: KD 7,267,257) on certain investments. Management is not aware of any factors which may indicate any further impairment for the available for sale investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

18. Investment in associates

18.1 The details of the group's investment in associates are given below:

	Country of incorporation	Percentage of ownership 31 December		Activity
		2016 %	2015 %	
Offset Holding Co. - KSCC	Kuwait	**50.00**	50.00	Brokerage
Al Wafir Marketing Services Co. - KSCC	Kuwait	**34.00**	34.00	Real estate
Al Oula Slaughterhouse Co. - KSCC	Kuwait	**28.89**	28.89	Services
Gulf Real Estate Co. - WLL	Kuwait	**20.13**	20.13	Real estate
Hill Property Investment LP	United Kingdom	**84.32**	84.32	Real estate
Surtees LP	United Kingdom	**96.96**	96.96	Real estate
Hunt Property LP	United Kingdom	**97.84**	97.84	Real estate

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

18. Investment in associates (continued)

18.2 Summarised financial information of group's material associates are set out below:

	Offset Holding Co. KSCC		Al Wafir Marketing Services Co. KSCC		Hill Property Investment LP		Surtees LP		Hunt Property LP	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Assets	**22,501,388**	23,016,566	**44,279,032**	41,982,210	**8,309,900**	8,920,726	**18,252,657**	21,463,438	**20,500,688**	21,843,671
Current	**1,847,679**	2,390,585	**13,908,743**	10,629,115	**195,690**	233,283	**1,258,655**	1,190,050	**4,003,376**	4,218,048
Non-current	**20,653,709**	20,625,981	**30,370,289**	31,353,095	**8,114,210**	8,687,443	**16,994,002**	20,273,388	**16,497,312**	17,625,623
Liabilities	**972,783**	699,538	**19,547,970**	17,640,635	**5,146,391**	5,268,132	**8,461,003**	9,995,261	**13,462,687**	13,821,605
Current	**404,693**	224,477	**4,822,306**	5,655,329	**292,965**	314,770	**608,414**	544,734	**624,902**	629,210
Non-current	**568,090**	475,061	**14,725,664**	11,985,306	**4,853,426**	4,953,362	**7,852,589**	9,450,527	**12,837,785**	13,192,395
	21,528,605	22,317,028	**24,731,062**	24,341,575	**3,163,509**	3,652,594	**9,791,654**	11,468,177	**7,038,001**	8,022,066
Non-controlling interests	**(622,695)**	(699,778)	**(59,999)**	(50,734)	**-**	-	**-**	-	**-**	-
Net assets	**20,905,910**	21,617,250	**24,671,063**	24,290,841	**3,163,509**	3,652,594	**9,791,654**	11,468,177	**7,038,001**	8,022,066
Group's share of net assets	**10,452,955**	10,808,625	**8,408,221**	8,258,548	**2,667,471**	3,079,867	**9,493,988**	11,119,544	**6,885,980**	7,848,790
Goodwill	**-**	-	**8,172,801**	8,306,370	**-**	-	**-**	-	**-**	-
Carrying amount	**10,452,955**	10,808,625	**16,581,022**	16,564,918	**2,667,471**	3,079,867	**9,493,988**	11,119,544	**6,885,980**	7,848,790
Revenue	**611,431**	952,087	**7,861,935**	11,090,542	**439,084**	520,805	**1,430,487**	1,422,827	**3,542,977**	2,066,599
Net (loss)/profit	**(711,340)**	(496,073)	**1,915,921**	1,161,501	**214,640**	275,170	**560,783**	851,524	**917,775**	202,167
Total comprehensive (loss)/income	**(711,340)**	(496,073)	**1,915,921**	1,161,501	**214,640**	275,170	**560,783**	851,524	**917,775**	202,167
Group' share of results	**(355,660)**	(248,037)	**651,386**	261,325	**180,984**	232,023	**543,735**	825,638	**897,951**	197,800
Dividend received	**-**	-	**635,283**	-	**186,996**	197,238	**558,339**	770,929	**519,723**	592,449

The remaining associates are considered immaterial to the group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

18. Investment in associates (continued)

18.3 Set out below is the aggregate information for the individually immaterial associates.

	31 Dec. 2016 KD	31 Dec. 2015 KD
Aggregate share in associates' assets and liabilities:		
Assets	**1,338,184**	1,224,849
Liabilities	**(71,809)**	(42,390)
	1,266,375	1,182,459
Aggregate share in associates' results:		
Revenue	**243,934**	228,209
Profit for the year	**141,693**	109,122
Group's share of total comprehensive income	**141,693**	109,122
Dividends received	**57,784**	36,115

18.4 The movement in the investment in associates is as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
At 1 January	**50,604,203**	53,143,043
Disposal	**-**	(2,600,000)
Share of results	**2,060,089**	1,377,871
Dividends	**(1,958,125)**	(1,596,731)
Capital reduction	**(304,324)**	(340,357)
Foreign currency translation of foreign associates	**(3,054,052)**	620,377
At 31 December	**47,347,791**	50,604,203

18.5 Investment in associate (Al Wafir Marketing Services) with a carrying value of KD 7,326,873 (31 December 2015: KD 7,319,757) is pledged against term loans (note 24).

18.6 All associates are unquoted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

19. Investment in real estate under development

This represents the parent company's 33.54% share in the ownership of the right of use of land located in Al Dubaiya leased from the Ministry of Finance in Kuwait. The right of use of land is jointly owned by the parent company and other investors through a real estate portfolio agreement. Under the agreement, the real estate is being developed by one of the other investors, which is a company specialized in the field of real estate investments.

The movement of the investment in real estate under development is as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
At 1 January	**4,108,650**	-
Resulted from reclassification	**-**	4,765,920
Additions	**206,451**	-
Impairment in value	**(134,161)**	(657,270)
At 31 December	**4,180,940**	4,108,650

As a result of impairment testing to the carrying value of the property, the group recognised an impairment loss of KD 134,161 (31 December 2015: KD 657,270). The impairment testing by management was based on fair value of the property which has been determined based on two valuations obtained from independent and qualified valuers as of the date of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

20. Investment properties

	Land KD	Building KD	Total KD
Cost			
1 January 2016	**1,023,750**	**1,484,989**	**2,508,739**
31 December 2016	**1,023,750**	**1,484,989**	**2,508,739**
Accumulated depreciation			
1 January 2016	**-**	**676,679**	**676,679**
Charge for the year	**-**	**59,376**	**59,376**
31 December 2016	**-**	**736,055**	**736,055**
Net book value			
At 31 December 2016	**1,023,750**	**748,934**	**1,772,684**
Fair value as at 31 December 2016	**1,712,547**	**1,252,828**	**2,965,375**
Cost			
1 January 2015	1,023,750	1,484,989	2,508,739
31 December 2015	1,023,750	1,484,989	2,508,739
Accumulated depreciation			
1 January 2015	-	617,616	617,616
Charge for the year	-	59,063	59,063
31 December 2015	-	676,679	676,679
Net book value			
At 31 December 2015	1,023,750	808,310	1,832,060
Fair value as at 31 December 2015	1,689,313	1,333,812	3,023,125

Land is not depreciated. Building is depreciated over 25 years. The fair value of the investment properties is based on independent valuations.

The investment property represents the part of building constructed on land rented to third parties, and is accounted for as an investment property under IAS 40.

The investment properties are mortgaged against murabaha payable (note 25).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

21. Property and equipment

31 December 2016:	**Land KD**	**Building KD**	**Office equipment and computers KD**	**Fixtures and decoration KD**	**Computer software KD**	**Work in progress KD**	**Total KD**
Cost							
At 1 January	**1,316,250**	**2,096,931**	**655,959**	**342,423**	**207,612**	**576,804**	**5,195,979**
Additions	**-**	**-**	**15,108**	**3,897**	**4,746**	**115,957**	**139,708**
Foreign currency translation differences	**-**	**(107,628)**	**(63,459)**	**(19,497)**	**(679)**	**-**	**(191,263)**
At 31 December	**1,316,250**	**1,989,303**	**607,608**	**326,823**	**211,679**	**692,761**	**5,144,424**
Accumulated depreciation							
At 1 January	**-**	**904,892**	**463,801**	**292,646**	**137,929**	**-**	**1,799,268**
Charge for the year	**-**	**112,794**	**77,140**	**15,947**	**28,303**	**-**	**234,184**
Foreign currency translation differences	**-**	**(31,924)**	**(57,317)**	**(14,644)**	**(2,915)**	**-**	**(106,800)**
At 31 December	**-**	**985,762**	**483,624**	**293,949**	**163,317**	**-**	**1,926,652**
Net book value							
At 31 December 2016	**1,316,250**	**1,003,541**	**123,984**	**32,874**	**48,362**	**692,761**	**3,217,772**
31 December 2015:							
Cost							
At 1 January	1,316,250	2,085,041	536,405	335,101	137,803	313,108	4,723,708
Additions	-	18,750	142,189	33,756	67,179	263,696	525,570
Foreign currency translation differences	-	(6,860)	(22,635)	(26,434)	2,630	-	(53,299)
At 31 December	1,316,250	2,096,931	655,959	342,423	207,612	576,804	5,195,979
Accumulated depreciation							
At 1 January	-	822,860	370,598	272,235	102,306	-	1,567,999
Charge for the year	-	79,029	93,649	23,173	35,418	-	231,269
Foreign currency translation differences	-	3,003	(446)	(2,762)	205	-	-
At 31 December	-	904,892	463,801	292,646	137,929	-	1,799,268
Net book value							
At 31 December 2015	1,316,250	1,192,039	192,158	49,777	69,683	576,804	3,396,711

The building is depreciated over 25 years.

The estimated useful lives of the group's office equipment, fixtures and decoration for the calculation of depreciation is 4 years, with the exception of its computer software which is depreciated over 3 years. Land is not depreciated.

Property and equipment are mortgaged against murabaha payable (note 25).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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22. Due to banks

This represents outstanding amounts of the credit facilities granted to the group from local and foreign banks in the form of overdraft facilities. The credit facilities carry interest rate ranging from 2.35% to 3.90% per annum (31 December 2015: 2.35% - 3.9% per annum) and payable on demand. Credit facilities are granted against pledge of certain available for sale investments (note 17).

23. Accounts payable and other liabilities

	31 Dec. 2016 **KD**	31 Dec. 2015 KD
Trade payables	**106,783**	650,149
Other payables	**3,343,421**	3,465,589
Accrued interest	**209,202**	216,054
Provision for staff leave	**174,658**	197,020
KFAS payable	**219,469**	219,469
NLST and Zakat payable	**2,826,395**	2,842,290
Due to shareholders	**213,065**	224,030
	7,092,993	7,814,601

24. Term loans

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

Loans are repayable as follows:

	31 Dec. 2016 **KD**	31 Dec. 2015 KD
Within one year	**7,330,000**	4,290,000
After one year	**11,400,000**	8,480,000
	18,730,000	12,770,000

Loans are all denominated in Kuwaiti Dinars and are secured by the pledge of investments at fair value through profit or loss, available for sale investments and investment in associate (notes 14, 17 and 18) and payable in various instalments ending in June 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

25. 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 2015: 3% - 5.25%) per annum. This financing is secured by way of mortgage of certain available for sale investments, investment properties and property and equipment (notes17, 20 and 21) and payable in various instalments ending in June 2020.

Murabaha payable is due as follows:

	31 Dec. 2016	31 Dec. 2015
	KD	KD
Within one year	**3,304,835**	2,770,320
After one year	**4,781,043**	8,053,218
	8,085,878	10,823,538

26. Share capital and share premium

As at 31 December 2016, the authorised, issued and paid up share capital of the parent company consists of 802,882,570 shares of 100 fils each (31 December 2015: 802,882,570 shares). All shares are in cash.

The share premium is non distributable.

27. Treasury shares

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

Reserves of the parent company equivalent to the cost of the treasury shares have been earmarked as non-distributable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

28. Reserves

Legal reserve
In accordance with the Companies Law and the parent company's Memorandum of Incorporation and Articles of Association, as amended, 10% of the profit for the year attributable to the shareholders of the parent company (before contributions to KFAS, NLST, Zakat and directors' remuneration) is required to be transferred to legal reserve. The parent company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

Voluntary reserve
The parent company's Articles of Association, as amended require that 10% of the profit for the year attributable to the shareholders of the parent company (before contributions to KFAS, NLST, Zakat and directors' remuneration) should be transferred to voluntary reserve. There are no restrictions on distribution of voluntary reserve.

No transfer is required in a year in which the parent company has incurred a loss or where cumulative losses exist.

29. Annual general assembly

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

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

30. 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 consolidated financial position. Total fiduciary assets as at the financial position date were KD5,764,463 (31 December 2015: KD3,646,123).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31. 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 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 year, 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
Year ended 31 December 2016					
Total revenues	**2,232,543**	**7,324,815**	**118,383**	**174,118**	**9,849,859**
(Loss)/profit for the year	**(877,323)**	**3,660,595**	**(301,163)**	**114,335**	**2,596,444**
As at 31 December 2016					
Total assets	**20,728,873**	**147,553,912**	**13,459,583**	**9,867,571**	**191,609,939**
Total liabilities	**19,678,650**	**18,209,940**	**985,500**	**-**	**38,874,090**
Net assets	**1,050,223**	**129,343,972**	**12,474,083**	**9,867,571**	**152,735,849**
Year ended 31 December 2015					
Total revenues	3,102,137	4,682,367	294,458	175,179	8,254,141
(Loss)/profit for the year	(175,539)	(5,424,794)	(158,393)	116,116	(5,642,610)
As at 31 December 2015					
Total assets	22,689,595	139,856,423	15,407,652	9,854,657	187,808,327
Total liabilities	19,108,577	13,175,946	1,885,788	-	34,170,311
Net assets	3,581,018	126,680,477	13,521,864	9,854,657	153,638,016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

32. Related party 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 party balances and transactions are as follows:

	31 Dec. 2016 **KD**	31 Dec. 2015 KD
Balances included in the consolidated statement of financial position		
Instalment credit debtors-gross (note 13)	**308,514**	309,996
Due from related parties	**1,104,711**	676,801
Due to shareholders (note 23)	**213,065**	224,030
Due to related parties	**191,888**	295,257

	Year ended **31 Dec. 2015** **KD**	Year ended 31 Dec. 2015 KD
Transactions included in the consolidated statement of profit or loss		
Income from installment credit debtors	**20,148**	21,049
Key management compensation:		
Salaries and other short term benefits	**514,637**	588,705
End of service benefits	**45,277**	38,248

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Year ended 31 December 2016

33. Risk management objectives and policies

The group's activities expose it to variety of financial risks: market risk, credit risk and liquidity risk.

The parent company's board of directors sets out policies for reducing each of the risks discussed below.

The group does not use derivative financial instruments, for speculative purposes.

The most significant financial risks to which the group is exposed are described below.

33.1 Market risk

a) Foreign currency risk
The group mainly operates in the GCC, other Middle Eastern countries, Europe and USA and is exposed to foreign currency risk arising from various foreign currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To mitigate the group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored in accordance with the group's risk management policies. Generally, the group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows.

The group had the following net significant exposures denominated in foreign currencies, translated into Kuwaiti Dinar at the closing rate:

	31 Dec. 2016 KD	31 Dec. 2015 KD
US Dollar	**20,182,677**	18,837,679
Lebanese Lira	**7,475,975**	7,073,156
GBP	**4,683,665**	6,870,524
Egyptian Pound	**1,082,360**	1,935,881
UAE Dirham	**146,890**	53,443
Saudi Riyal	**(7,908)**	(7,908)
Euro	**1,142,634**	1,916,938
Omani Riyal	**54,085**	51,858
Jordanian Dinar	**882,947**	873,018
Norwegian Korone	**817,817**	1,144,100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

33. Risk management objectives and policies (continued)
33.1 Market risk (continued)

The following table details the group's sensitivity to a 2% (2015: 2%) increase and decrease in the KD against above foreign currencies. The sensitivity analysis includes only outstanding foreign currencies denominated monetary assets and liabilities and adjusts their translation at the year end for a 2% change in foreign currency rates. A positive number below indicates an increase in profit and equity and a negative number indicates decrease in profit and equity. All other variables are held constant. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

	+2% Impact	+2 % Impact	**-2% Impact**	-2 % Impact
	31 Dec. 2016 KD	31 Dec. 2015 KD	**31 Dec. 2016 KD**	31 Dec. 2015 KD
Profit for the year	**206,902**	274,855	**(206,902)**	(274,855)
Equity	**522,319**	501,642	**(522,319)**	(501,642)

b) Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. As the group is not exposed to a significant interest rate risk on interest bearing assets, the group is exposed to interest rate risk with respect to its borrowings which are both at fixed rate and floating interest rate. The risk is managed by the group by maintaining an appropriate mix between fixed and floating rate borrowings. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

Positions are monitored on a daily basis and hedging strategies used, if required, to ensure positions are maintained within established limits.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

33. Risk management objectives and policies (continued)

33.1 Market risk (continued)

b) Interest rate risk (continued)

The group's interest rate exposure based on earlier of contractual repricing arrangements and maturity at 31 December 2016 was as follows:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Sub-total up to 1 year KD	Over 1 year KD	Non-interest bearing items KD	Total KD	Effective interest rate KD
Assets								
Cash and cash equivalents	6,536,799	3,567,130	-	10,103,929	-	-	10,103,929	1.35
Instalment credit debtors	1,644,197	1,524,532	2,622,266	5,790,995	5,327,658	-	11,118,653	2.5-8
Investments at fair value through profit or loss	-	-	-	-	-	6,814,873	6,814,873	-
Accounts receivable and other assets	-	-	-	-	364,424	5,457,525	5,821,949	-
Due from related parties	-	-	-	-	-	1,104,711	1,104,711	
	8,180,996	5,091,662	2,622,266	15,894,924	5,692,082	13,377,109	34,964,115	
Liabilities								
Due to banks	3,847,752	-	-	3,847,752	-	-	3,847,752	2.35–3.9
Accounts payable and other liabilities	-	-	-	-	-	7,092,993	7,092,993	-
Due to related parties	-	-	-	-	-	191,888	191,888	-
Term loans	1,370,000	2,140,000	3,820,000	7,330,000	11,400,000	-	18,730,000	4.5-5.25
Murabaha payable	956,209	-	2,348,626	3,304,835	4,781,043	-	8,085,878	3-5.25
Provision for employees' end of service benefits	-	-	-	-	-	925,579	925,579	-
	6,173,961	2,140,000	6,168,626	14,482,587	16,181,043	8,210,460	38,874,090	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

33. Risk management objectives and policies (continued)
33.1 Market risk (continued)
b) Interest rate risk (continued)

The group's interest rate exposure based on earlier of contractual repricing arrangements and maturity at 31 December 2015 was as follows:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Sub-total up to 1 year KD	Over 1 year KD	Non-interest bearing items KD	Total KD	Effective interest rate KD
Assets								
Cash and cash equivalents	3,755,890	3,551,750	-	7,307,640	-	-	7,307,640	1.35
Instalment credit debtors	2,257,245	1,524,532	2,122,266	5,904,043	7,590,698	-	13,494,741	2.5-8
Investments at fair value through profit or loss	-	-	-	-	-	6,720,274	6,720,274	-
Accounts receivable and other assets	-	-	-	-	-	6,780,171	6,780,171	-
Due from related parties	-	-	-	-	-	676,801	676,801	-
	6,013,135	5,076,282	2,122,266	13,211,683	7,590,698	14,177,246	34,979,627	
Liabilities								
Due to banks	1,661,901	-	-	1,661,901	-	-	1,661,901	2.35-3.9
Accounts payable and other liabilities	-	-	-	-	-	7,814,601	7,814,601	-
Due to related parties								
Term loans	-	-	-	-	-	295,257	295,257	-
Murabaha payable	170,000	1,090,000	3,030,000	4,290,000	8,480,000	-	12,770,000	4.75-5.25
Provision for employees'	432,580	-	2,337,740	2,770,320	8,053,218	-	10,823,538	3-5.25
end of service benefits	-	-	-	-	-	805,014	805,014	-
	2,264,481	1,090,000	5,367,740	8,722,221	16,533,218	8,914,872	34,170,311	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

33. Risk management objectives and policies (continued)
33.1 Market risk (continued)
b) Interest rate risk (continued)

The following table illustrates the sensitivity of the result for the year to a reasonably possible change in interest rates of +1% and –1% (2015: +1% and –1%) with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market condition. The calculations are based on the group's financial instruments held at each financial position date. All other variables are held constant.

	31 Dec. 2016		31 Dec. 2015	
	+ 1%	**-1%**	+ 1%	- 1%
	KD	**KD**	KD	KD
Results for the year	**(94,410)**	**94,410**	(44,531)	44,531
Equity	**(94,410)**	**94,410**	(44,531)	44,531

c) Price risk

The group is exposed to equity price risk with respect to its equity investments. Equity investments are classified either as investments at fair value through profit or loss (including trading securities), and available for sale investments.

To manage its price risk arising from investments in equity securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the consolidated financial statements date.

If equity prices had been 10% higher/lower, the effect on the profit for the year and equity for the years ended 31 December 2016 and 2015 would have been as follows:

	Profit for the year		**Equity**	
	31 Dec. 2016	31 Dec. 2015	**31 Dec. 2016**	31 Dec. 2015
	KD	KD	**KD**	KD
Investments at fair value through profit or loss	**±681,487**	±672,027	**±681,487**	±672,027
Available for sale investments	**-**	-	**±9,881,269**	±9,157,313

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

33. Risk management objectives and policies (continued)

33.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group's credit policy and exposure to credit risk is monitored on an ongoing basis. The group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities. It also obtains security when appropriate.

The group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the financial position date, as summarised below:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Cash and cash equivalents	**10,103,929**	7,307,640
Instalment credit debtors	**11,118,653**	13,494,741
Investments at fair value through profit or loss (note 14)	**5,930,206**	4,887,711
Accounts receivable and other assets	**5,821,949**	6,780,171
Due from related parties	**1,104,711**	676,801
Total	**34,079,448**	33,147,064

33.3 Concentration of assets

The distribution of assets by geographic region is as follows:

	Kuwait KD	**GCC KD**	**Other Middle Eastern countries KD**	**Europe and other KD**	**USA KD**	**Total KD**
31 December 2016						
Cash and cash equivalents	**3,057,366**	**408,129**	**4,761,792**	**65,865**	**1,810,777**	**10,103,929**
Instalment credit debtors	**5,107,680**	**-**	**6,010,973**	**-**	**-**	**11,118,653**
Investments at fair value through profit or loss	**6,808,509**	**-**	**6,364**	**-**	**-**	**6,814,873**
Accounts receivable and other assets	**1,206,005**	**94,940**	**1,422,022**	**365,825**	**2,733,157**	**5,821,949**
Due from related parties	**993,939**	**-**	**110,772**	**-**	**-**	**1,104,711**
Properties held for trading	**-**	**1,313,947**	**-**	**-**	**-**	**1,313,947**
Available for sale investments	**48,428,561**	**1,045,370**	**202,567**	**20,879,457**	**28,256,735**	**98,812,690**
Investment in associates	**28,300,353**	**-**	**-**	**19,047,438**	**-**	**47,347,791**
Investment in real estate under development	**4,180,940**	**-**	**-**	**-**	**-**	**4,180,940**
Investment properties	**1,772,684**	**-**	**-**	**-**	**-**	**1,772,684**
Property and equipment	**3,137,670**	**4,041**	**76,061**	**-**	**-**	**3,217,772**
Total	**102,993,707**	**2,866,427**	**12,590,551**	**40,358,585**	**32,800,669**	**191,609,939**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

33. Risk management objectives and policies (continued)

33.3 Concentration of assets (continued)

	Kuwait KD	GCC KD	Other Middle Eastern countries KD	Europe and other KD	USA KD	Total KD
31 December 2015						
Cash and cash equivalents	2,134,211	341,216	4,200,347	283,341	348,525	7,307,640
Installment credit debtors	8,556,663	-	4,938,078	-	-	13,494,741
Investments at fair value through profit or loss	6,651,234	-	69,040	-	-	6,720,274
Accounts receivable and other assets	2,799,185	282,720	3,238,885	254,024	205,357	6,780,171
Due from related parties	344,581	-	47,444	284,776	-	676,801
Properties held for trading	-	1,313,947	-	-	-	1,313,947
Available for sale investments	56,591,276	522,189	83,991	22,151,208	12,224,465	91,573,129
Investment in associates	28,530,878	-	-	22,073,325	-	50,604,203
Investment in real estate under development	4,108,650	-	-	-	-	4,108,650
Investment properties	1,832,060	-	-	-	-	1,832,060
Property and equipment	3,207,176	6,860	182,675	-	-	3,396,711
Total	114,755,914	2,466,932	12,760,460	45,046,674	12,778,347	187,808,327

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

33. Risk management objectives and policies (continued)

33.4 Liquidity risk
Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The table below summarises the maturity profile of the group's assets and liabilities. The maturities of assets and liabilities have been determined on the basis of the remaining period from the financial position date to the contractual maturity date. The maturity profile for available for sale investments is determined based on management's estimate of liquidation of those investments. Maturity profile of assets and liabilities at 31 December 2016:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Sub-total up to 1 year KD	Over 1 year KD	Total KD
Assets						
Cash and cash equivalents	6,536,799	3,567,130	-	10,103,929	-	10,103,929
Installment credit debtors	1,644,197	1,524,532	2,622,266	5,790,995	5,327,658	11,118,653
Investments at fair value through profit or loss	6,814,873	-	-	6,814,873	-	6,814,873
Accounts receivable and other assets	153,397	4,929,768	359,417	5,442,582	379,367	5,821,949
Due from related parties	-	-	1,104,711	1,104,711	-	1,104,711
Properties held for trading	-	-	1,313,947	1,313,947	-	1,313,947
Available for sale investments	-	-	-	-	98,812,690	98,812,690
Investment in associates	-	-	-	-	47,347,791	47,347,791
Investment in real estate under development	-	-	-	-	4,180,940	4,180,940
Investment properties	-	-	-	-	1,772,684	1,772,684
Property and equipment	-	-	-	-	3,217,772	3,217,772
Total assets	15,149,266	10,021,430	5,400,341	30,571,037	161,038,902	191,609,939
LIABILITIES						
Due to banks	3,847,752	-	-	3,847,752	-	3,847,752
Accounts payable and other liabilities	727,586	1,131,052	2,416,078	4,274,716	2,818,277	7,092,993
Due to related parties	-	-	191,888	191,888	-	191,888
Term loans	1,370,000	2,140,000	3,820,000	7,330,000	11,400,000	18,730,000
Murabaha payable	956,209	-	2,348,626	3,304,835	4,781,043	8,085,878
Provision for employees' end of service benefits	-	-	-	-	925,579	925,579
Total liabilities	6,901,547	3,271,052	8,776,592	18,949,191	19,924,899	38,874,090

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

33. Risk management objectives and policies (continued)
33.4 Liquidity risk (continued)

Maturity profile of assets and liabilities at 31 December 2015:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Sub-total up to 1 year KD	Over 1 year KD	Total KD
Assets						
Cash and cash equivalents	3,755,890	3,551,750	-	7,307,640	-	7,307,640
Installment credit debtors	2,257,245	1,524,532	2,122,266	5,904,043	7,590,698	13,494,741
Investments at fair value through profit or loss	6,720,274	-	-	6,720,274	-	6,720,274
Accounts receivable and other assets	201,091	4,125,049	1,907,703	6,233,843	546,328	6,780,171
Due from related parties	-	-	676,801	676,801	-	676,801
Properties held for trading	-	-	1,313,947	1,313,947	-	1,313,947
Available for sale investments	-	-	-	-	91,573,129	91,573,129
Investment in associates	-	-	-	-	50,604,203	50,604,203
Investment in real estate under development	-	-	-	-	4,108,650	4,108,650
Investment properties	-	-	-	-	1,832,060	1,832,060
Property and equipment	-	-	-	-	3,396,711	3,396,711
Total assets	12,934,500	9,201,331	6,020,717	28,156,548	159,651,779	187,808,327
LIABILITIES						
Due to banks	1,661,901	-	-	1,661,901	-	1,661,901
Accounts payable and other liabilities	794,636	1,048,813	2,935,235	4,778,684	3,035,917	7,814,601
Due to related parties	-	-	295,257	295,257	-	295,257
Term loans	170,000	1,090,000	3,030,000	4,290,000	8,480,000	12,770,000
Murabaha payable	432,580	-	2,337,740	2,770,320	8,053,218	10,823,538
Provision for employees' end of service benefits	-	-	-	-	805,014	805,014
Total liabilities	3,059,117	2,138,813	8,598,232	13,796,162	20,374,149	34,170,311

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

33. Risk management objectives and policies (continued)
33.4 Liquidity risk (continued)

The contractual maturity profile of the financial liabilities based on undiscounted cash flow is as follows:

31 December 2016	Up to 1 month KD	1-3 months KD	3-12 months KD	Sub-total up to 1 year KD	Over 1 year KD	Total KD
Financial liabilities						
Due to banks	**3,861,833**	**-**	**-**	**3,861,833**	**-**	**3,861,833**
Accounts payable and other liabilities	**727,586**	**1,131,052**	**2,416,078**	**4,274,716**	**2,818,277**	**7,092,993**
Due to related parties	**-**	**-**	**191,888**	**191,888**	**-**	**191,888**
Term loans	**256,786**	**2,292,372**	**6,220,392**	**8,769,550**	**11,285,458**	**20,055,008**
Murabaha payable	**997,622**	**47,411**	**982,140**	**2,027,173**	**5,605,169**	**7,632,342**
Provision for employees' end of service benefits	**-**	**-**	**-**	**-**	**925,579**	**925,579**
	5,843,827	**3,470,835**	**9,810,498**	**19,125,160**	**20,634,483**	**39,759,643**

31 December 2015	Up to 1 month KD	1-3 months KD	3-12 months KD	Sub-total up to 1 year KD	Over 1 year KD	Total KD
Financial liabilities						
Due to banks	1,738,708	-	-	1,738,708	-	1,738,708
Accounts payable and other liabilities	794,636	1,048,813	2,935,235	4,778,684	3,035,917	7,814,601
Due to related parties	-	-	295,257	295,257	-	295,257
Term loans	225,433	1,222,828	3,465,846	4,914,107	9,005,385	13,919,492
Murabaha payable	471,767	-	2,696,581	3,168,348	8,789,578	11,957,926
Provision for employees' end of service benefits	-	-	-	-	805,014	805,014
	3,230,544	2,271,641	9,392,919	14,895,104	21,635,894	36,530,998

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2016

34. Fair value measurement

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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Year ended 31 December 2016

34. Fair value measurement (continued)

34.2 Fair value measurement of financial instruments
The carrying amounts of the group's financial assets and liabilities as stated in the consolidated statement of financial position may also be categorised as follows:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Financial assets:		
Loans and receivables at amortised cost:		
Cash and cash equivalents	**10,103,929**	7,307,640
Installments credit debtors	**11,118,653**	13,494,741
Accounts receivable and other assets	**5,821,949**	6,780,171
Due from related parties	**1,104,711**	676,801
Investments at fair value through profit or loss:		
Investments at fair value through profit or loss	**6,814,873**	6,720,274
Available for sale investments:		
Available for sale investments – at fair value	**61,132,135**	58,326,329
Available for sale investments – at cost	**37,680,555**	33,246,800
Total	**133,776,805**	126,552,756
Financial liabilities:		
Financial liabilities at amortised cost:		
Due to banks	**3,847,752**	1,661,901
Accounts payable and other liabilities	**7,092,993**	7,814,601
Due to related parties	**191,888**	295,257
Term loans	**18,730,000**	12,770,000
Murabaha payable	**8,085,878**	10,823,538
Provision for employees' end of service benefits	**925,579**	805,014
Total	**38,874,090**	34,170,311

In the opinion of management, except for certain available for sale investments which are carried at cost for reasons specified in note 17 to these consolidated financial statements, the carrying amounts of financial assets and liabilities as at 31 December 2016 approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

34. Fair value measurement (continued)

34.2 Fair value measurement of financial instruments (continued)

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

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

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
31 December 2016				
Investments at fair value through profit or loss:				
Local quoted shares	**830,399**	**-**	**-**	**830,399**
Foreign quoted shares	**54,268**	**-**	**-**	**54,268**
Investment in managed portfolios	**5,930,206**	**-**	**-**	**5,930,206**
Available for sale investments:				
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 December 2015				
Investments at fair value through profit or loss:				
Local quoted shares	1,763,523	-	-	1,763,523
Foreign quoted shares	69,040	-	-	69,040
Investment in managed portfolios	4,887,711	-	-	4,887,711
Available for sale investments:				
Local quoted shares	26,030,807	-	-	26,030,807
Local unquoted shares	-	-	8,304,201	8,304,201
Foreign unquoted shares	-	-	11,721,385	11,721,385
Investment in managed portfolios	1,412,303	-	10,591,000	12,003,303
Investment funds	-	266,633	-	266,633
	34,163,384	266,633	30,616,586	65,046,603

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

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the inter-relationship between key unobservable inputs and fair value, are set out below.

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Year ended 31 December 2016

34. Fair value measurement (continued)

34.2 Fair value measurement of financial instruments (continued)

Available for sale investments:

The group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations, where required. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

The valuation techniques used for instruments categorised in Levels 2 and 3 are described below:

Certain unquoted equity securities are valued based on book value and price to book multiple method using latest financial statements available of the investee entities.

Other unquoted equity securities are valued using cash flow projections based on financial estimates approved by senior management. The growth rates used to arrive at the terminal value ranged from 2% to 3%. Further the revenue growth projections are based on the assessment of the future business growth.

Key assumptions used in fair value calculations

The calculation of fair value is most sensitive to the following assumptions:

- Discount rates;
- Growth rates used to extrapolate cash flows beyond the budget period;
- Local inflation rates.

Discount rates

Discount rates are calculated by using risk free rate, equity market risk premium, beta factor and company specific risk premium (alpha factor).

Market share assumptions

These assumptions, as well as use of industry data for growth rates, are important as the entity's relative position to its competitors might change over the budget period.

Projected growth rates and local inflation rates

Assumptions are based on references from published industry research reports.

Investments in funds have been valued based on Net Asset Value (NAV) of the fund provided by the fund manager.

Gains or losses recognised in the consolidated statement of profit or loss for the year are included in profit on sale of available for sale investments.

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

There were no changes to the valuation techniques during the year.

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Year ended 31 December 2016

34. Fair value measurement (continued)

34.2 Fair value measurement of financial instruments (continued)

Level 3 fair value measurements

The group measurement of financial assets and liabilities classified in level 3 uses valuation techniques 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 Dec. 2016 KD	31 Dec. 2015 KD
Opening balance	**30,616,586**	33,290,422
Change in fair value	**4,840,885**	(2,389,810)
Sales	**-**	(705,360)
Purchases	**-**	421,334
Closing balance	**35,457,471**	30,616,586
Total amount included in consolidated statement of profit or loss for unrealised gains on level 3 assets	**-**	-

Changing inputs to the level 3 valuations to reasonably possible alternative assumption would not change significantly amounts recognised in profit or loss, total assets or total liabilities or total equity.

Non-financial instruments

Investment properties were fair valued at 31 December 2016 and are classified under level 3 fair value hierarchy and reconciliation is provided in note 20.

Description of significant unobservable inputs to valuation of non-financial assets:

Fair value of investment properties were determined using Mark to Market method, conducted by valuators considering transaction prices of the property and similar properties. The significant unobservable valuation input used for the purpose of valuation is the market price per square foot / meter and varies from property to property. A reasonable change in this input would result in an equivalent amount of change in fair value.

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Year ended 31 December 2016

35. Capital risk management

The group's capital management objectives are to ensure the group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimisation of the capital structure.

The group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the group consists of the following:

	31 Dec. 2016 KD	31 Dec. 2015 KD
Due to banks (note 22)	**3,847,752**	1,661,901
Term loans (note 24)	**18,730,000**	12,770,000
Murabaha payable (note 25)	**8,085,878**	10,823,538
Less: Cash and cash equivalents (note 12)	**(10,103,929)**	(7,307,640)
Net debt	**20,559,701**	17,947,799
Equity	**152,735,849**	153,638,016
Net debt to equity ratio	**13.46%**	11.68%