

ANNUAL REPORT 2017

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



Arzan Financial Group for Financing and Investment K.S.P.C.
Established on 15th April 1980

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

Head Office

Sharq - Arzan Tower
P.O.Box: 26442 - Safat - 13125 Safat, Kuwait
Tel.: +965 1820 200 / +965 2220 3000
Fax: +965 2242 8875

www.arzan.com.kw





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

Content



6	Board Members
8	Chairman's Message
10	CEO Message
14	Management Report
15	• ARZAN Wealth
16	• ARZAN Asset Management
16	• ARZAN Brokerage
17	• ARZAN Corporate Credit
17	• ARZAN Collection
18	• ARZAN Venture Capital
18	• Marketing
19	• Information Technology
20	• Administration
21	• Human Resources
22	• Internal Audit
22	• Risk Management
25	• Finance Department
26	Financial Report Analysis
28	Corporate Governance Report
48	BDO Opinion letter
50	Board Declaration
51	CEO and CFO Declaration
52	Remuneration Report
54	Financial Statements



BOARD
MEMBERS

Wafa Ahmad Al Qatami
Chairman

Jassem Hasan Zainal
Vice Chairman & CEO

Ibrahim Saleh Al-Tharban
Board Member

Emad Abdullah Al Essa
Board Member

Rami Khaled Abdullah
Board Member

Ammar Taleb Hajeyah
Board Member

Abdul Hamid Mihrez
Board Member

Ruba Fati Ghanem
Board Secretary

CHAIRMAN'S MESSAGE



Honorable Shareholders,

On behalf of the members of the Board of Directors, I am pleased to present to you the annual report and the consolidated financial statement for the fiscal year ended 31 December 2017 of Arzan Financial Group. I am also pleased to look over with you the most important achievements of the Group this year.

The global and local economic prospects have witnessed relative improvement this year. The global economy has continued its improvement and recovery, which has restored confidence and momentum in the markets; however, economic developments remain volatile. The low prices of crude oil and the geopolitical challenges that many countries of the region and the world is facing along with their negative consequences continue to contribute to increasing environmental challenges in the Group's business operations.

In light of the above, and under the strategic plan of the Group, the Board of Directors and Executive Management of the Group have taken the responsibility to developing the Group's business through the provision of innovative financial and investment services that will be described in detail in the Executive Management Report. The company's infrastructure, systems and operations have been developed and improved by applying the latest technologies to meet the needs of the Group's customers and enhance its competitiveness.

Despite the continuing challenges facing the company, the Group managed to achieve positive results during the year. The Group achieved operating revenues of 8,057,642 KD for the year ended 31 December 2017 compared to 7,473,197 KD in the previous year.

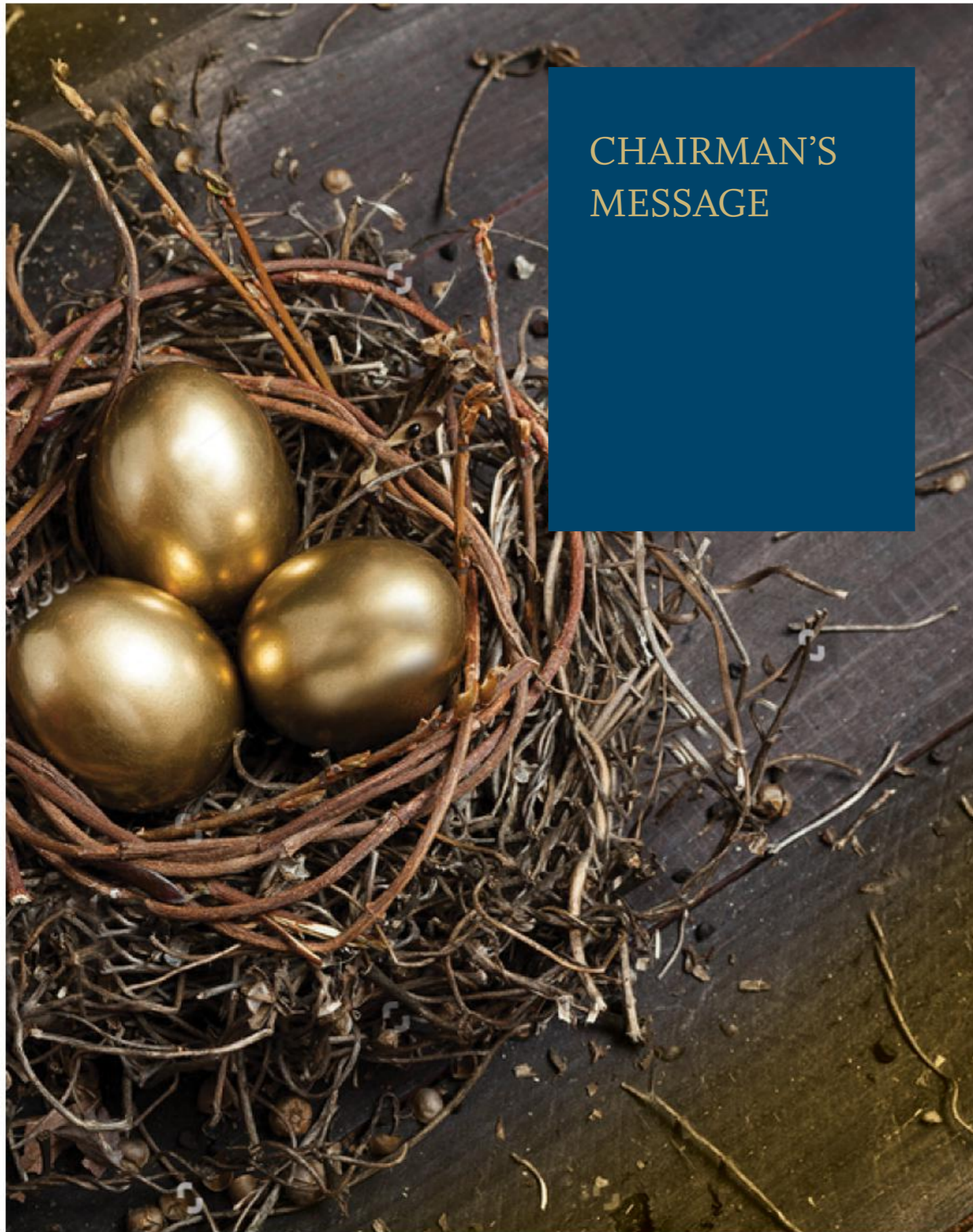
The Group also achieved a net profit of 1,741,781 KD compared to a profit of 671,417 KD at the end of 2016.

In conclusion, and on behalf of the members of the Board of Directors, I would like to express my deepest thanks and appreciation to His Highness the Amir of Kuwait Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, His Highness the Crown Prince Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, His Excellency the Prime Minister Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, His Excellency Mr. Khalid Nasser Al-Roudhan the Minister of Commerce and Industry, Governor of the Central Bank of Kuwait Dr. Mohammad Yousef Al-Hashil, Chairman of the former Board of Commissioners of the Capital Markets Authority Dr. Naif Falah Al-Hajraf, and to the Vice Chairman of the Board of Commissioners and Acting Executive Director of the Capital Markets Authority Mr. Mishaal Al-Osaimi, for their continuous support and contribution to our achievements.

I would also like to take this opportunity to express my sincere thanks and appreciation to the shareholders for their invaluable trust and support, my sincere thanks and appreciation to all the Company's customers for their trust and support, and to all the employees of the Company for their dedication and hard work.

May Allah Almighty bring conciliation for all for the good and benefit of the company and for more conciliation and rectitude.

Wafa Al Qatami - Chairman of Board of Directors



CEO MESSAGE



Dear Shareholders,

The global economy continued the improvement and recovery process that began in the last phase of 2016 and gained more strength in the first half of 2017 supported by better-than-expected performance of the economies of the USA, Europe and Japan. The performance of the global financial markets during the year was characterized by stability and growth, which resulted in the improvement of crude oil prices relatively compared to previous periods. Accordingly, the International Monetary Fund raised its forecast for the performance of the global economy during the two years, where the global economy witnessed a growth of 3.6% during 2017 compared to the same in 2016, which grew by 3.2%, and is expected to achieve a growth of 3.7% in 2018.

Growth in the advanced economies rose to 2.2% in 2017 compared to 1.7% in 2016, supported by the strong performance in Japan, Canada and the Euro zone, as well as the good performance of the United States.

But the World Bank expects a decline in growth rates of developed countries to 2% in 2018 as a result of the expectations of the decline in the performance of the British economy and the uncertainty in the future of economic policies in the United States this year.

As for the Middle East and North Africa, economic prospects remain various as the geopolitical disturbances continue to affect many countries in the region. The economy of the oil-exporting countries continues to suffer from the consequences of the fall in oil prices, in addition to the continuation of the policy of fiscal austerity that has a negative impact on economic growth. The growth rate of the GCC economy has been at its lowest level in several years at 0.5% for 2017, with an expected growth improvement in 2018 to reach 2.2% following expectations of increased spending.

The outlook of the global economy is positive in the foreseeable future, supported by the strong performance in many of the world's economies and the continued positive performance of many major financial markets around the world, the improvement in economic indicators, the improvement in consumer confidence and the return of normal monetary policy. However, the overall prospect is not entirely positive as inflation rates remain below the targeted levels, leading to a slowdown in the implementation of financial sector regulation and monitoring processes that followed the global financial crisis.

Many regions of the world suffer from geopolitical risks that have a negative impact on the economic performance of those countries and the surrounding countries.



At the local level, there has been an improvement in the general financial situation of the country as a result of the implementation of some items of the financial reform plan approved in 2016. The government has managed to save about 3.25 billion Kuwaiti Dinars during the previous two years as a result of spending control. The State Budget during 2016/2017 achieved a deficit of about 17.5% of the GDP.

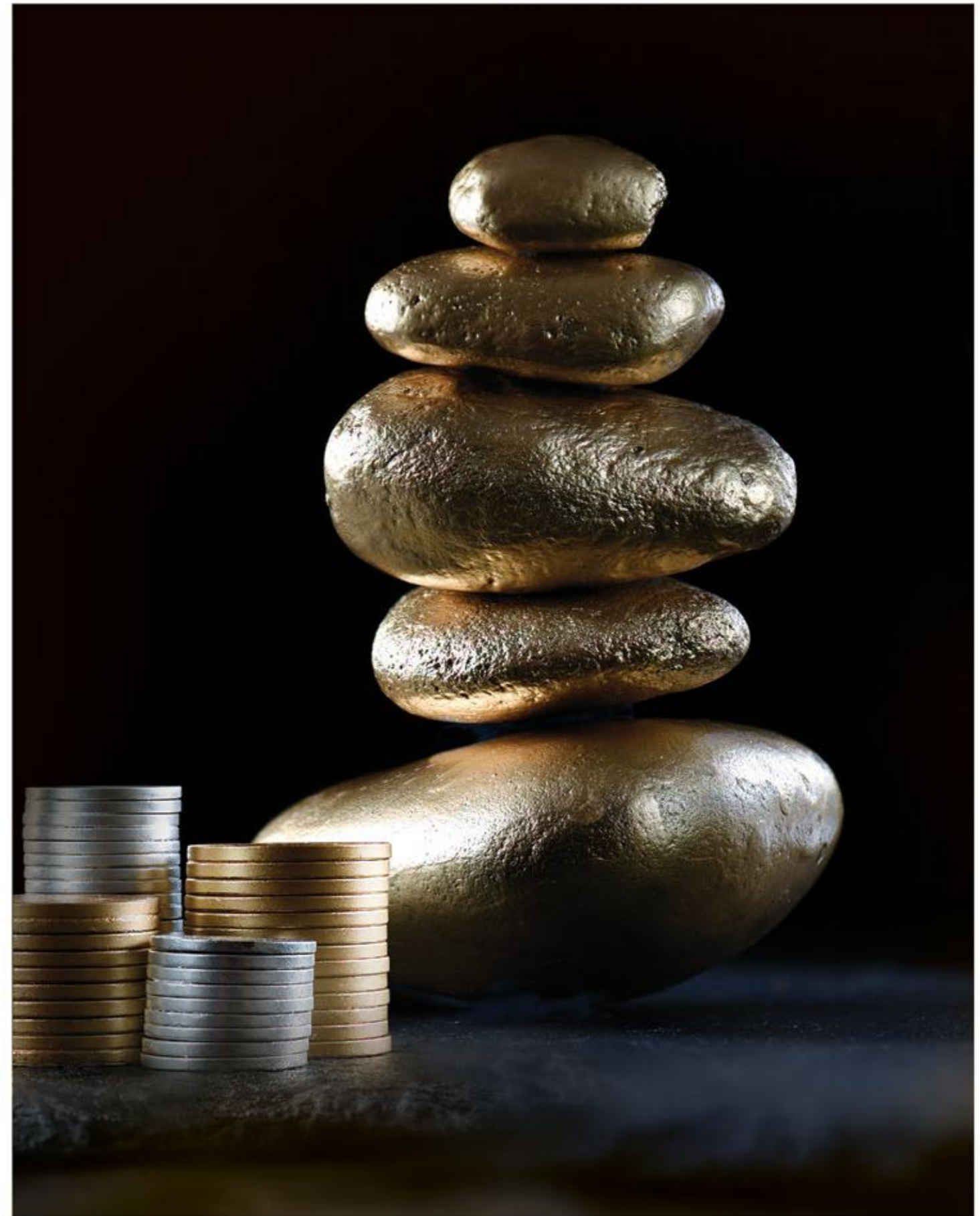
The process of upgrading the market to the ranks of emerging markets by FTSE Russell index helped the market gain further increase. The price index rose by 11% during the year, compared to 3.5% last year. Both indices of the volume of traded shares and the number of transactions rose by 72% on an annual basis. The market liquidity doubled compared to what it recorded in 2016.

Overall, economic conditions are more positive compared to how it was in the previous years. The economic activity is expected to accelerate in the medium term and non-oil sectors are expected to achieve a better growth.

With the business environment improving over the past year, Arzan Financial Group continued to implement its strategy which aims to achieve leadership in the financial and investment industry by building a strong financial institution that provides financial and investment solutions to its clients. The Board of Directors has approved the renewal of the current strategy which ends at the end of 2017 to the end of 2018. In the next phase, the Company will focus on providing new investment products that meet the needs of the discerning customers and expand the customer base.

The Management will attach importance to the development of the IT infrastructure, which was completed during the year in the development of information technology in order to make the most of the information technology infrastructure, which was completed during the year in developing the services provided to customers, increasing the electronic security, and connecting networks of subsidiaries located in different countries with the parent company in the State of Kuwait. In the field of human resources, the Company continued to provide the best training programs for its employees to develop their skills and practical experience. The management seeks to make the work environment distinctive and attractive to investors and highly qualified employees.

Jassem Zainal - Chief Executive Officer



MANAGEMENT REPORT

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 2017, in the acquisition of three real estate assets in each of the Netherlands and the US, and in the launch of our first mezzanine lending assignment, for a portfolio of assets in the US. These assets were all within Arzan Wealth's yielding platform, which offers a highly predictable monthly income stream from safe opportunities in mature markets.

Arzan Wealth was also able to achieve four successful exits from earlier transactions. Three of those transactions were under the yielding platform in the UK, Norway and Germany and the fourth exit was under the Residential Refurbishment and Development platform in New York City.

Following the highly successful exit of our first development transaction in New York, construction has started on a second, similar project in NY, and we continue to provide advisory services to our clients in relation to this project, and potential new projects under this developmental platform.

We are proud that all five exits from our portfolio since inception of our business have achieved results that are above our original expectations. We always encourage clients to diversify their investments across many opportunities, and a client who would have invested in all five of our exited investments would have achieved an average IRR, net of taxes and fees, of 15.6% per annum, which is inclusive of an average monthly yield equal to 8.4% per annum.

Looking forward towards 2018, Arzan Wealth remains cautious in its approach to new transactions, as it analyzes the potential impact of various geo-political and macro-economic changes around the world. We continue to primarily focus on safe and secure, income-producing opportunities in mature markets, and where appropriate we will seek to grow our involvement in the mezzanine lending market, where we feel there may be superior risk-return profiles. Selectively, we will address client demand for riskier, developmental or value-add opportunities as well.

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.

Muhammad Abulhasan - Chief Executive Officer - Arzan Wealth



ARZAN ASSET MANAGEMENT

At Arzan asset management division we strive to deliver to our clients customized investments solutions based on their return expectation and risk tolerance profile focusing on capital growth, consistency, and maintaining superior client relationships. Currently the division focuses on managing investments in regional markets by providing portfolio management and investment advisory services to retail and institutional investors.

As an active investments manager, our investment approach integrates bottom-up stock selection method with Top-down country allocation method while following a disciplined risk management scheme. Our investment process is research-driven where asset allocation and portfolio construction decisions are made based on thorough fundamental and investors behavior analysis. We believe uncovering investments with certain characteristics is poised to generate attractive returns and provide capital preservation.

For the year 2017 we focused on growing our clients base through developing new investments solutions. Our concern for the upcoming year, are the current geo-political tension in the region. Our aim is to monitor it closely and develop active strategies to counter it.

ARZAN BROKERAGE

The Division is closely 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 efficiencies for our brokerage subsidiaries and the division.

During 2017, the division sustained the implementation of the restructuring and recapitalization plans for IFA Securities Brokerage (Egypt) and IFA Financial Services (Jordan). Also, the division completed the capital increase of EFG-Hermes IFA Financial Brokerage Company (Kuwait) by 56.86% to reach 10 Million Kuwaiti Dinars which meets the new regulation issued by CMA regarding the minimum capital requirement. Going forward our focus is on increasing our client base and improving the subsidiaries profitability margins.

Talal Al Bahar - Executive Director of Asset Management & Brokerage



ARZAN CORPORATE CREDIT

In 2017, Arzan Credit have a considerable diversified list of corporate clients in various business aspects and domains maintaining retained customers below 50% in consistency with 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.

To maintain the high quality a careful screening criteria is applied including the communication with the retained clients and the new/potential prospects. No mass publications or media is carried out as we have been 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 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 as well as performance reports related to corporate SME credit department.

Arzan Credit created some new financial solutions to satisfy the market & individuals needs by supporting Easy Buy Project for installments Plans.

ARZAN COLLECTION

Arzan Collection Co. S.P., 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, dedicated field team and dedicated judgment execution & recovery with full trained and understanding of all retail and corporate loans.

Arzan management has large experience in banking operations and products (over 21 years' experience) and has big experience with the top banks in Kuwait and many other sectors such as finance companies, telecom, real state, retailers, and insurance .



ARZAN VENTURE CAPITAL

ArzanVC closed its first fund in 2017 with a total of 18 investments spread across the MENA, San Francisco (U.S.), Toronto (Canada) and Europe. Arzan VC invested in 3 more companies in 2017 and all 3 deals were led by us. We also participated in follow on funding rounds for 3 of our portfolio companies.

ArzanVC evaluated close to 400 companies in 2017 as compared to 300 companies in 2016 and eventually invested in 3 companies. Many of our portfolio companies which we invested in 2015 and 2016 have raised or are about to raise a subsequent round at a higher valuation. In 2017, Arzan VC launched an online platform for pre-seed companies - <http://apply.arzanvc.com/>. In 2017, we saw a higher activity in VC investments and expect the MENA startup ecosystem to develop further and faster.

Hasan Zainal - Partner

MARKETING

In 2017, Arzan Financial Group maintained its success and leadership in the market through the implementation of strategies and plans aimed primarily at protecting the wealth of its clients and investors, enhancing their confidence and meeting all their needs by providing all types of financial services and financial solutions.

In 2017, the Marketing and Public Relations Department succeeded in promoting the brand of the Group and maintaining its image internally and externally through the website, social networks, press conferences, press releases, and the participations in community service and social responsibilities.

Good Marketing and Public Relations activities are key factors that contributed to the successful expansion of Arzan Financial Group. These important factors enable us to increase our business and strengthen our position in the community and in the minds of our target clients. In addition, Arzan Financial Group provided a great appearance in CSR participations and as it has been actively involved with many charitable societies such as the Red Crescent Society and the Kuwait Heart Association in 2017.

Arzan Financial Group has sponsored several events that serve the community, children, handicapped and people with special needs by sponsoring the Symphony Style hotel event that supports children with special needs, also by the sponsoring of "Ishraqa Amal 5" festival, which supports children with special needs and the children with cancer.

Fawaz Almunaya - Marketing & PR Supervisor



INFORMATION TECHNOLOGY

In 2017, 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.

In 2017, AFG completed the implementation of T24 Temenos Core Banking System & Insight Data warehouse business system for reporting. T24 system enable General Ledger integration, all the data is centralized in to unified system the advantage of automating the process is to improve efficiency & timely reporting. The Insight System provides reporting and data analysis, and is considered a core component of business intelligence. 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. 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 focus on implementing Paperless Environment Project to automate all the process, we have completed the requirement gathering from all the departments, now the development stage is under process. AFG believes in automation and this will improve the efficiency & ease the day to day process.

AFG IT developed the departmental strategy in align with business strategy to expand our infrastructure to Cloud Environment. Microsoft Azure Cloud Services, building, deploying, and managing applications and services through a global network of Microsoft-managed data centers. This Project is a Departmental objective in align with the group Strategy, which is phased out in six different phases over a period of 3 Years to be completed in 2020. During this year AFG IT has completed 3 phases which comprise as below.

• Phase I:

Enable consistent user experience with common identity. Azure Active Directory for a single sign-on experience across on-premises. The Migration of mailboxes to office 365 a hybrid deployment is a combination of on-premises applications or data and cloud-based services. The biggest achievement from this phase is the migration process completed with Zero Down time which includes all subsidy mailboxes.



- Phase II:

Azure Backup as a Service (BaaS): Azure Backup is a simple and cost-effective backup as a service (BaaS) solution, that gives you trusted tools on-premises with rich and powerful tools in the cloud. It delivers strong protection to our data wherever it resides. Azure Backup, in a seamless portal experience with Azure Site Recovery, gives you cost-efficiency and minimal maintenance, consistent tools for offsite backups and operational recovery, and unified application availability and data protection.

Phase III:

Migration of Arzan & the subsidy websites to Azure, Developed and implemented three new sites. Easybuy website along with Payment Gateway. Investment CRM system.

ADMINISTRATION

In 2017, administration department focused on providing all services and fulfilling all other departments' needs. Administration department have three main functions, which are governmental services, general services, and general registration.

Governmental services are the connection point between Arzan Financial Group and all governmental institutions in Kuwait. Throughout the year, administration department provided a huge effort in the governmental relations by preparing the Annual General Meeting for the year ended 2016. The department also issued all licenses related to Arzan building and Arzan Group and its subsidiaries on time.

The second main function for administration department is providing general services, which includes all the maintenance and security for the building. During the year of 2017, administration department have provided the company with better security solutions for the entire building. It also takes care of all building facilities and provides daily maintenance for the building in order to make sure all utilities are working fine.

The third main function of the administration department is general registration, which is monitoring the processes of imported and exported documents. Administration department keeps all of the documents secured and fully controlled. In addition, the administration department have improved the archiving system for the company in order to keep our company's documents and our customers' information safe and guarded.

Ahmad AL Homaid - IT & Admin Manager



HUMAN RESOURCES

In the year 2017, the Human Resource Department at Arzan Financial Group has ensured commitment to attracting and retaining the most talented and diverse workforce. To achieve these objectives, we provided a wide range of support services, resources and programs in the area of employee relations, compliance, talent management and training, compensation and employee benefits. We prepared the annual plan and strategies well in advance and clearly defined the criteria for every position to attract high performing individuals with specialized skills and talents.

At Arzan we ensure that our workforce receives the experience, training and timely interventions that help in building long lasting and fruitful careers for them. Annual training plans are prepared in accordance to departmental and organizational requirements in order to make our employees more dynamic. 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 challenging roles. Reward and recognition form an integral part of our Company's Human Resource Policy. We offer competitive compensation and benefits package to ensure employee satisfaction.

At Arzan, we invest in our employees by supporting them to take up Professional certifications and also identify ways in which the company can be improved or the working conditions can be enhanced. We ensure that all 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 employee satisfaction is the key to a successful and smooth running organization.

Abeer Botrous - Human Resources Manager



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

RISK MANAGEMENT

1. Arzan Risk Management Principles

The management of risk lies at the heart of our business strategy at Arzan. 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 Risk Management works as Risk Advisory and is not involved in the origination, trading or lending activity decisions. The independence of the risk function is consistently monitored to ensure that risk decisions are not compromised and/or influenced and an adequate balance between risk and return is achieved in order to accomplish our sustainable growth objectives.



During the year 2017, Arzan has taken a number of initiatives in order to enhance risk management by hiring new independent capabilities and imparting different training courses to our Risk Management staff. We have also implemented a strong risk culture and are committed to maintaining this culture in the coming years by imparting different risk training and awareness sessions to the employees.

3. Overall Risk Assessment

Key risk categories include financial risks such as credit risk, market risk, liquidity risk, business risk, and non-financial risks (NFRs) including reputational risk and operational risk (with important sub-categories such as compliance risk, legal risk, information security risks, fraud risks, and money laundering risks, ...etc).

We manage the identification, assessment, and mitigation of top and emerging risks through an internal governance process and the use of risk management tools. Our approach to risk assessment aims to ensure that we mitigate the impact of these risks on our financial results, long-term strategic goals, and reputation.

The overall focus on Risk Management throughout 2017 was on maintaining our risk profile in line with our strategy, with a focus on balance sheet optimization. This approach is reflected in the different risk metrics summarized below.

- Credit Risk Management

Credit Risk Management is very critical to 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 a strong credit history are selected.

The selection of creditworthy customers acts a first line of defence 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.

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, according to the premise that collective decisions are always better than individual decisions.

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 mitigations, 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 shifts the probability of default risk of an obligor to third party including insurance companies.



Arzan regularly monitors the 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.

- 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 the Board defined limit structure.

Price Risk

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

Risk Management calculates the VaR for equity investment exposure under different scenarios and assumptions. The information derived from the VaR calculation will help the business manager to take prompt decisions and avoid excessive risks. We have enhanced our model, increasing its coverage to ensure that VaR findings become an integrated part of key decision making.

Foreign Currency

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 through future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

To mitigate the Group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows were monitored during 2017 by Risk Department in accordance with the group's risk management policies.

- Liquidly Risk

Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due, and to limit this risk, Risk Department monitored liquidity on a Quarterly basis in 2017.

- Operational Risk Management

Arzan has devised and implemented a comprehensive framework for the management of Operational Risk. The following are the key elements of this 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 arrived at the Residual Risks register stating the summary of risks needing 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 is lodging each operational risk incident.

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

- Compliance Risk

During the year 2017, Arzan has complied with CMA guidelines on Corporate Governance, submitting the report to CMA within the deadline prescribed by the authority.

- Anti-Money Laundering (AML) Risk

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 2017, we have imparted AML training to our employees and have been working regularly to improve AML policies, including the customer screening process, enhanced due diligence and periodic reporting to different regulatory authorities.

Nawal Baddar - Risk Manager

FINANCE DEPARTMENT

During 2017, the Arzan Financial Group achieved profits of 1.741 million KD compared to profits of 671 thousand KD which is a 159% increase from the previous year.

The company has achieved operating revenues in the amount of 8.057 million KD as compared to 7.473 million KD, with an increase equivalent to 7.8%. The reason for the increase is due to the followings:

1. Increase in gain on sale of investments at fair value through profit or loss.
2. Increase in change in fair value of investments at fair value through profit or loss.

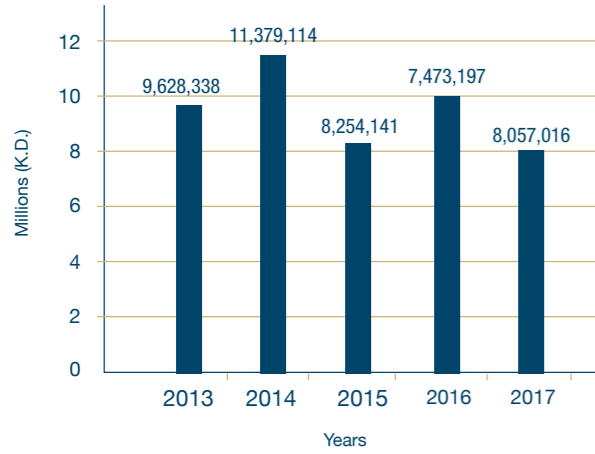
Expenses and other charges also amounted to 6.834 million KD compared to 7.20 million KD, with a decrease of 4.4%. And the reasons for this decrease is due to decrease in impairment of available for sale investments.

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

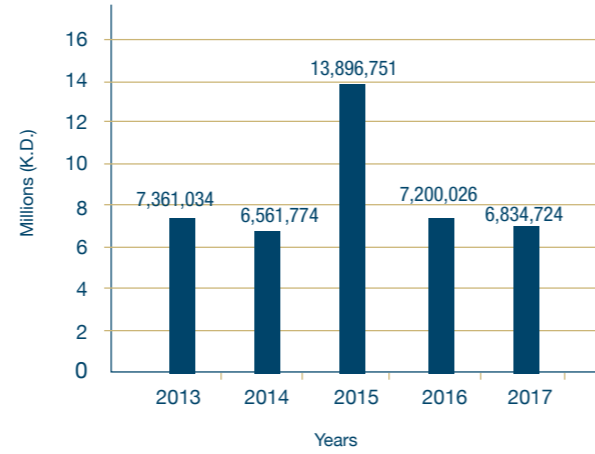
Mohammed Farid - Finance Director

FINANCIAL REPORT ANALYSIS

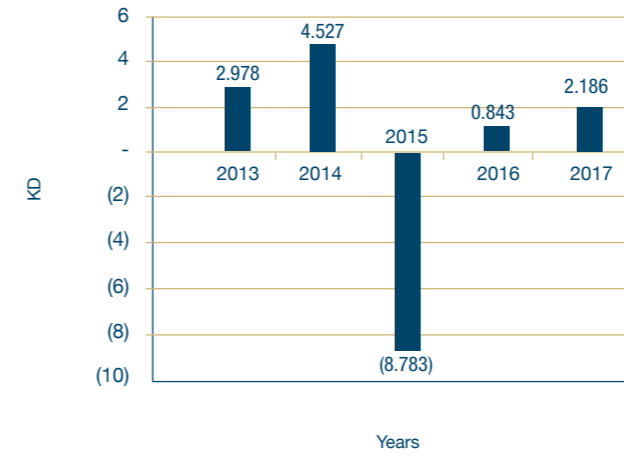
Total Income



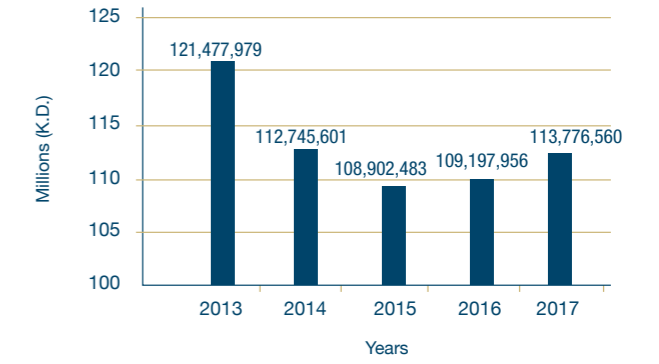
Total Expenses



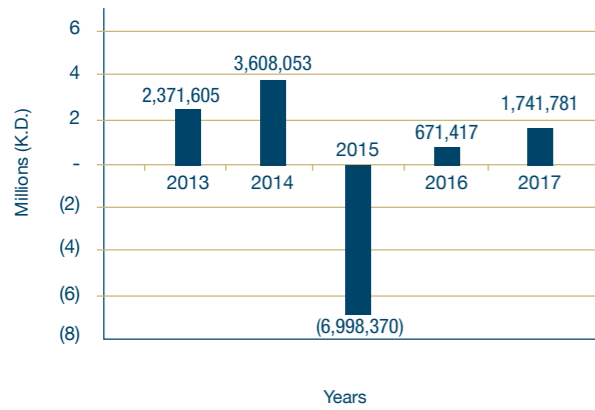
Earnings per Share



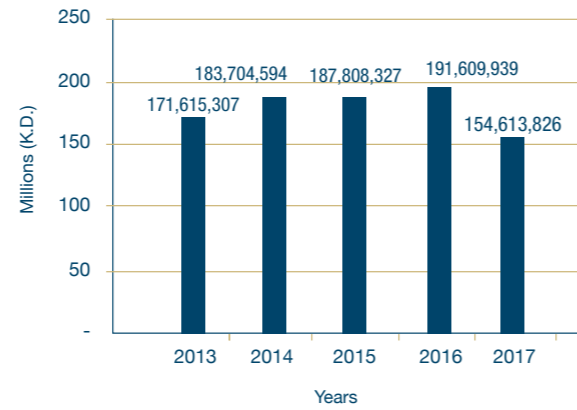
Shareholders' equity attributable to parent company



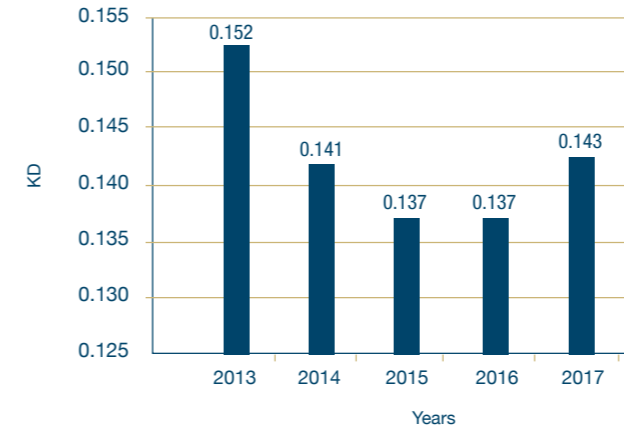
Net Income attributable to the parent company



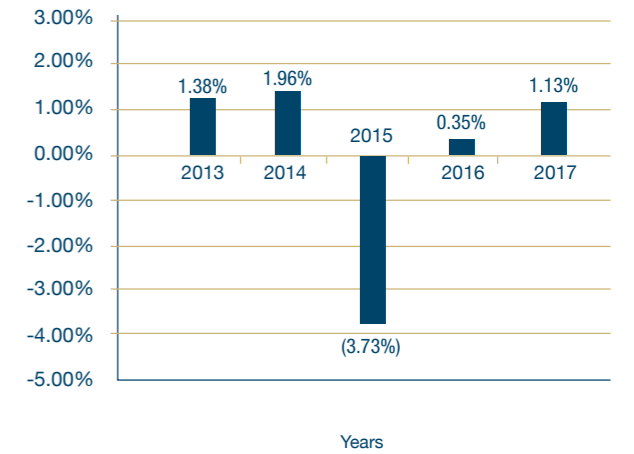
Assets



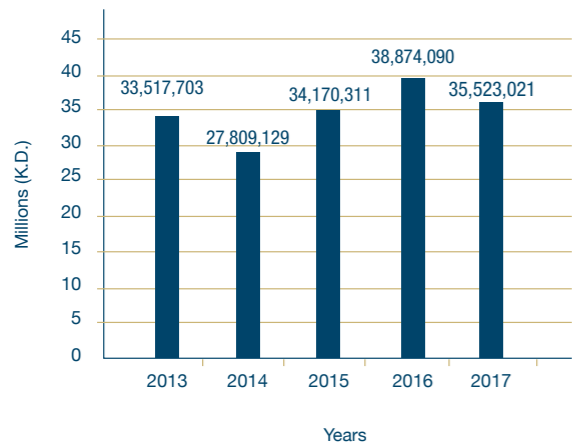
Book Value



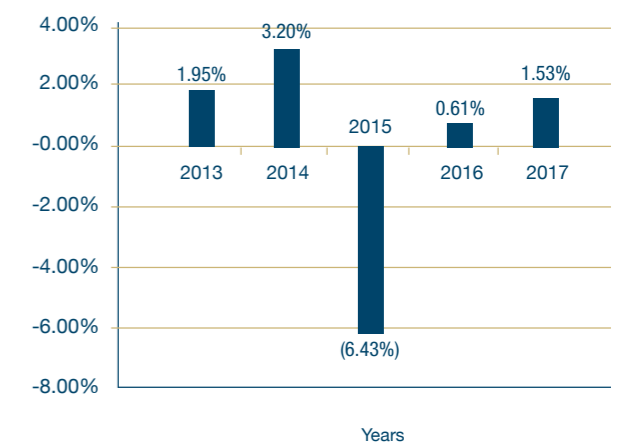
Return on Assets



Total Liabilities



Return on Equity



CORPORATE GOVERNANCE REPORT

2017

Introduction

Stemming from the principles of transparency and disclosure that enhance the stability and growth of the Company and in application of best global regulatory and supervisory practices, as well as in compliance with the instructions of the regulators, we prepared this report with a view to demonstrate our keenness to enhance the administrative efficiency of the Company, support the monitoring and auditing procedures and raise the level of effective social role in society, in addition to promoting justice, transparency and fair treatment and reducing the concept of conflict of interest. We have prepared a corporate governance report to include a set of rules that are the cornerstone of this report, as follows:

- Rule One: Building a balanced structure for the Board of Directors
- Rule Two: Proper identification of tasks and responsibilities
- Rule Three: Selection of competent persons for the Board of Directors and the Executive Management
- Rule Four: Ensuring the integrity of financial reports:
- Rule Five: Develop sound risk management and internal control systems
- Rule Six: Promoting professional conduct and moral values
- Rule Seven: Disclosure and transparency in an accurate and timely manner
- Rule Eight: Respect of Shareholders' Rights
- Rule Nine: Recognizing the role of stakeholders
- Rule Ten: Performance promotion and improvement
- Rule Eleven: Focusing on the importance of social responsibility

Rule One: Building a balanced structure for the Board of Directors

Board of Directors

The role of the Board of Directors (the “Board”) represents the point of balance that works to achieve shareholders’ objectives and follow-up the functions of the Executive Management of the Company. The Board of Arzan Finance Group believes that the skills, experiences and characteristics of its members fit with their responsibilities and the activities of the Company and its members provide a range of expertise to the Board, including, but not limited, the following:

- International, regional and local experience;
- Technical expertise related to the business environment and the regulatory and economic environment in which Arzan operates;
- Experience and knowledge of the financial sector.

Formation of Arzan Finance Group Board:

The Board’s decisions have a significant impact on the performance of the Company and the integrity of its financial position. Therefore, the Company is keen to have a BOD that is composed of a sufficient number of members that allows to form the necessary number of committees emanating from the Board, within the requirements of good governance.

The Board of Directors consists of seven (7) members, including the independent members, for 2017-2019 Session.

The Nomination and Remuneration Committee examined the papers of the candidates nominated for the Board membership for 2017-2019 Session and it was ensured that the applicants have met the requirements of Kuwait Capital Markets Authority in terms of the rules of competence and integrity of the candidates.

Independence

The Board of Directors shall be composed of two independent members. The Nomination and Remuneration Committee has ensured that the status of independence is fulfilled in accordance with the regulations of Kuwait Capital Markets Authority.

The following are the resumes of the BOD members for 2017-2019 Session:

Name	Member Classification	Qualifications and Practical Expertise	Election Date
Wafa Ahmad Al Qatami	Board Chairman, representing Al-Rana Trading Company	<ul style="list-style-type: none"> • Political Science and General Management, AUC of Beirut 1973, Lebanon • Experience of 40 years in banking, investment, real estate and financial institutions. 	19 July 2017
Jassem Hasan Zainal	Board Vice Chairman and Chief Executive Officer Representative of Dhahiat Al-Sura Real Estate Company	<ul style="list-style-type: none"> • Bachelor of Science - Civil Engineering, Miami University (1980), USA. • BA in General Studies - Mathematics, Miami University (1981), Miami, USA. • MA of Science - Civil Engineering, Kuwait University (1991), State of Kuwait. • 34 years of experience in banking, investment and financial institutions 	19 July 2017
Ibrahim Saleh Al-Tharban	Board Member. Representative of Manara Horizon Real Estate Company	<ul style="list-style-type: none"> • Bachelor of Commerce - Accounting, Kuwait University (1975), State of Kuwait. • 40 years of experience in banking, investment, real estate and financial institutions. 	19 July 2017
Emad Abdullah Al Essa	Board Member. Representative of Kivan International	<ul style="list-style-type: none"> • Bachelor of Science - Business Administration, Polytechnic University (1986), Pomona, California, USA. • MA of Business Administration - Accounting, George Washington University (2004), Washington DC, USA. • 30 years of experience in investment, real estate and financial institutions. 	19 July 2017
Rami Khaled Abdullah	Board Member Representative of Asjad Kuwait	<ul style="list-style-type: none"> • Bachelor of Arts - Business Administration, Beirut American University (2000), Beirut, Lebanon. • MA of Business Administration - Accounting, George Washington University (2004), Washington DC, USA. • Certified Financial Analyst - CFA, (2008), USA. • Certified Public Accountant (CPA), (2005) USA. • Certified Financial Manager - CFM (2002), USA. • Certified Managerial Accountant - CMA, (2001), USA. • 20 years of experience in auditing, consulting, investment, real estate and financial institutions. 	19 July 2017
Ammar Taleb Hajeyah	Independent Member	<ul style="list-style-type: none"> • Bachelor of Business Administration - Finance, Kuwait University (2004), Kuwait. • MA in of Strategic Management, Maastricht Business School - Kuwait (2008), State of Kuwait. • 15 years of experience in investment, real estate and financial institutions. 	19 July 2017
Abdul Hamid Mihrez	Independent Member	<ul style="list-style-type: none"> • Bachelor of Science - Biology, Beirut American University (1999), Beirut, Lebanon. • MA in Business Administration - Finance, Lebanese American University (2002), Beirut, Lebanon. • Certified Financial Analyst - CFA, (2005), USA. • 15 years of experience in investment, real estate and financial institutions. 	19 July 2017
Ruba Ghanem	Secretary	<ul style="list-style-type: none"> • Bachelor of Business Administration - Banking, Granttown University 2014, USA. • 18 years of experience in banking, investment and financial institutions. 	19 July 2017

Board meetings and attendance

The Board of Directors shall devote sufficient time to carry out the tasks and responsibilities entrusted thereto, including preparing for the Board meetings and committees emanating therefrom, keenness to attend these meeting and organizing the Board meetings in consecutive numbers for the year in which they are held, indicating the venue, date and starting and ending hours of the meeting, as well as preparing minutes of discussions and deliberations including the voting process. The said minutes shall be signed by all members and the Secretary. All Board minutes of meetings, records, books and reports submitted from/to the Board shall be kept, ensuring a full and rapid access of the Board members to the minutes of Board meetings, documents and records relating to the Company. The Board has appointed a Secretary of the Board from among the Company's employees, specifying her functions in accordance with the Company's corporate governance rules and in line with the responsibilities assigned to her.

Meetings shall be scheduled at the beginning of each calendar year and the meeting shall be held, at least, on a quarterly basis. Sufficient documentation shall be provided to the Board members to enable them assessing the topics for which decisions are required. Among the key documents submitted to the Board:

- Quarterly financial statements
- Minutes of the previous Board meeting
- Minutes of the Board committees
- Aspects / developments within each department of the Company
- Reports of regulatory violations.

The Board of Directors held 7 meetings in the year 2017, as follows:

Member's Name	Meeting # (1/2017) on 30/03/2017	Meeting # (2/2017) on 18/04/2017	Meeting # (3/2017) on 21/05/2017	Meeting # (4/2017) on 19/07/2017	Meeting # (5/2017) on 13/08/2017	Meeting # (6/2017) on 09/11/2017	Meeting # (7/2017) on 24/12/2017	Number of Meetings
Wafa Ahmad Al Qatami	√	√	×	×	×	√	×	3
Jassem Hasan Zainal	√	√	√	√	√	√	√	7
Ibrahim Saleh Al-Tharban	×	√	√	√	√	√	√	6
Abdul Hamid Mihrez	×	√	√	√	√	√	×	5
Emad Abdullah Al Essa	√	√	√	×	×	√	×	4
Rami Khaled Abdullah	√	×	×	√	√	×	√	3
Ammar Taleb Hajeyah	√	√	×	√	√	√	√	6

Rule Two: Proper identification of tasks and responsibilities

Functions of the Board of Directors

The role of the Board of Directors in the Company is a balance point that works to achieve the shareholders' objectives and follow up the Executive Management of the Company. The Board seeks to achieve the Company's strategic objectives by ensuring that the Executive Management performs its tasks to the fullest and that it works to enhance the competitiveness of the Company, in addition to achieving high growth rates, working to maximize profits and that the Executive Management decisions and procedures always work to the interests of the shareholders.

Worth noting is that the Board operates in accordance with an approved code that includes the main responsibilities, as well as other responsibilities as provided for in the relevant regulations and laws. Some of the most prominent actions undertaken by the Board during 2017 include, but not limited to, the following:

- Review corporate governance processes and assess the achievement according to objectives;
- Supervising monitoring and reviewing the performance of the Board and the Executive Management;
- Ratify Arzan's finance and borrowing requirements;
- Ratify the annual and interim budgets and ensure that performance is measured in accordance with the budget and work plans;
- Recommend acquisitions, mergers and liquidation of the operating companies to the shareholders to obtain their approval if and when it is required subject to the local law;
- Review the annual financial statements, interim lists, dividend declarations and notices to shareholders in accordance with the recommendation of the Audit Committee of the Board of Directors and their approval;
- Shoulder the primary responsibility for risk management systems, internal controls and financial and operational systems;
- Adopt new policies and modern internal procedures of the Company, including (policy on regulating the relations with related parties, policy of conflict of interest, policy of protection against leakage of information (Chinese wall), record keeping policy and swift policy).
- Review and amend the existing internal policies and procedures of the Company (including Audit Committee Code, Risk Management Committee Code, Compensation and Remuneration Policy for Board Members, Policy for Protecting Shareholders' Equity, Code of Conduct Policy and Social Responsibility Policy, Matrix of Powers and Responsibilities, Performance Assessment Guide for Board Members and Committee Members).
- Ensure a balanced assessment for the Group's position in the reports issued to shareholders.
- Ensure Company's compliance with the policies and procedures that ensure that the Company respects to shareholders' rights for the activities and internal regulations in force and the Company's commitment to implementing the governance system.
- Adopting the annual estimated budgets.
- Monitor the performance of each member of the Board of Directors and Executive Management in accordance with the Key Performance Indicators.
- Adoption of risk reports.
- Enter to or exit from new investments.
- Establish companies or exit therefrom.



Board Committees

Arzan's internal control and management system is based on the directives and regulations issued by the Capital Markets Authority, the Central Bank of Kuwait, Kuwait Stock Exchange, the Company's Memorandum of Association, Articles of Association and internal practices. The Board shall bear full responsibility for the operations of the Company's operations and may delegate some of its powers to the Board Committees. The Board has formed three committees to assist it in monitoring the decision-making process and functions of Arzan. Each Board Committee shall perform its functions in accordance with its own code, as specified in the Code of the Board of Directors and in accordance with the regulations approved by the Board.

During 2017, the Board of Directors, during its meeting number 4/2017, has formed 3 committees emanating from the Board to assist them in making decisions and monitor the functions of the Company. These committees are working according to their own codes as approved by the Board for the period of 2017-2019. .

Audit Committee:

The Audit Committee is responsible for assisting the Board in effectively performing its responsibilities in terms of financial reporting, internal controls and internal and external audit, in addition to developing Company's culture of compliance by ensuring the independence of external auditors and the integrity and fairness of the Company's financial statements, ensuring the adequacy and efficiency of the Company's internal controls. The Committee operates on the basis of a code approved by the Board. Among the prominent works practices in the year 2017, for example:

1. Review and discuss the interim and final financial statements before submitting them to the Board and expressing opinion thereon as at 31/12/2016, 31/03/2017, 30/06/2017 and 30/09/2017, in addition to studying auditors' observations on the financial statements and their follow-up.
2. Review the internal control systems' evaluation report o for the year ending in 31/12/2016.
3. Recommend to the Board and reappoint the external auditors.
4. Review the results of internal audit reports and ensure corrective actions are taken.
5. Review and approve the annual audit management work plans.
6. Discuss the international accounting standards (IFRS 9) and their application to interim and annual financial statements as of January 2018.

The Audit Committee shall consist of the following three members, appointed by a resolution of the Board of Directors issued in its Minutes No. 4/2017, dated 19/07/2017, for the session (2017-2019):

- Ibrahim Al-Tharban - Chairman of the Committee
- Ammar Hajieh - Independent Member
- Emad Al-Issa - Member



Audit Committee has convened Five (5) meetings during the year 2017, as follows:

Member's Name	Meeting # (1/2017) on 30/03/2017	Meeting # (2/2017) on 21/05/2017	Meeting # (3/2017) on 13/08/2017	Meeting # (4/2017) on 09/11/2017	Meeting # (5/2017) on 07/12/2017	Number of Meetings
Ibrahim Saleh Al-Tharban (Chairman of the Committee)	x	√	√	√	√	4
Emad Abdullah Al Essa (Member)	√	√	x	√	√	4
Ammar Taleb Hajeyah Independent Member)	√	x	√	√	√	4
External Auditor	√	x	x	√	√	3
Internal Auditor	√	√	√	√	√	5

Risk Committee:

The Risk Committee is responsible for assisting the Board in performing the special control and monitoring responsibility for the Company's risk management function, including identifying, assessing, controlling and mitigating the risks the Company is exposed to. The Committee assists the Board in developing the Company's risk management approach and strategy, as well as the overall risk management framework and monitoring the implementation of the executive management of this strategy. The Committee operates on the basis of a code approved by the Board of Directors. The following are examples to the key works undertaken by the Committee during 2017 :

1. Review the periodic reports on the nature of risks to which the Company is exposed, submitting them to the Board of Directors.
2. Review the risk management organizational structure, recommendations has been placed and submitted for BOD approval.
3. Ensure the independence of the risk management officer.
4. Review the issues related to risk management by the Audit Committee.
5. Review current policies and procedures, including : Corporate Social Responsibility, Protection of Shareholders' and Code of Conduct.
6. Review new policies and procedures including : Related Parties, Conflict of Interest, Information Leakage (Chinese Wall), Records' Keeping and Archive and Electronic Transfer (SWIFT).

The Risk Committee consists of 3 members appointed by Board o resolution issued in its minutes No. 4/2017, dated 19/07/2017, for the session (2017-2019) :

- Ibrahim Al-Tharban – Committee Chairman
- Jassem Hassan Zainal - Committee Vice Chairman
- Abdel Hamid Mehrez - Member

Risk Management Committee has convened 4 meetings, as follows :

Member's Name	Meeting # (1/2017) on 19/07/2017	Meeting # (2/2017) on 17/10/2017	Meeting # (3/2017) on 7/12/2017	Meeting # (4/2017) on 24/12/2017	Number of Meetings
Ibrahim Saleh Al-Tharban (Chairman of the Committee)	√	×	√	√	4
Jassem Hasan Zainal Committee Vice Chairman	√	√	√	√	4
Abdul Hamid Mihrez Member	×	√	√	×	2

Nomination and Remuneration Committee :

This committee shall assume the responsibilities related to the compensations of the Arzan Board of Directors and its Executive Management, in line with their performance, qualifications and levels of expertise. The Committee also assumes additional responsibilities related to the nominations in accordance with CMA regulations and the other laws. The Committee operates on the basis of a code approved by the Board of Directors. Among the key works undertaken by the Committee during 2017, for example:

1. Review the qualifications of the applicants for the Board membership.
2. Ensure that the independency of the Board independent members is achieved.
3. Develop functional descriptions for executive, non-executive and independent members.
4. Discuss the results of self-assessment of the Board members.
5. Review the Board members' Compensation and Remuneration Policy.

The Nomination and Remuneration Committee consists of the following four (4) members appointed by Board resolution issued in its Minutes No. 4/2017, dated 19/07/2017, for the session (2017-2019):

- Wafa Al Qatami - Chairman (Non-Executive Member)
- Jassim Hassan Zainal - Committee Vice Chairman (Executive Member)
- Rami Ali - (Non-Executive Member)
- Abdel Hamid Mehrez - Independent Member

The Nomination and Remuneration Committee has convened twice during 2017, as follows :

Member's Name	Meeting # (1/2017) on 23/05/2017	Meeting # (2/2017) on 7/12/2017	Number of Meetings
Wafa Ahmad Al Qatami (Chairman)	√	√	2
Jassem Hasan Zainal (Vice Chairman)	√	√	2
Rami Khaled Abdullah (Non-Executive Member)	√	√	2
Abdul Hamid Mihrez (Independent Member)	-	√	1

Executive Committee :

It has been canceled during 2017.

Rule Three: Selection of competent persons for the Board of Directors and the Executive Management

Responsibility of the Nomination and Remuneration Committee relevant to positions' occupancy:

The nomination mechanism set for the Board of Directors and Executive Management ensures continuous recruitment and selection of competencies to the membership of the Board and Executive Management. The Company's Board of Directors has formed a Nomination and Remuneration Committee consisting of three Board non-executive Board members, with independent member. The Board has determined membership terms and work methods of the committee and identified its responsibilities and authorities within its code of conduct which has been approved by BOD.

The Company's Articles of Association also stipulate a clear policy for remuneration bonuses to the Board Chairman and members. The company's remuneration policy is based on the following principles:

- Observance of the provisions of Companies Law and related laws.
- Recruitment and retention of the best staff.
- Ensuring equality within the Company and competitiveness outside it.
- Transparency in awarding remunerations.

Directors' Remunerations:

The Company adheres to the remuneration system of the Board of Directors as stipulated in Article 198 of Companies Law No. (1/ 2016) and the approval of the General Assembly shall be taken regarding the remuneration of the Board members.



Executive Management Remuneration and Incentives:

Fixed Remuneration : Includes salaries and benefits (including end of service benefits), which are awarded under the scale of salaries approved by the Board of Directors, the applicable laws and regulations and the Human Resources Management Policies and Procedures Manual.

Variable Remuneration : Variable remunerations are linked to the achievement of previously determined objectives. This kind of remuneration is designed to motivate and reward Executive Management members. Variable remuneration is allocated according to the performance of the Executive Management member and the overall performance of the Company. Variable rewards are paid in cash.

The Company prepares an annual report on all remunerations granted to the members of the Board of Directors and the Executive Management, to be presented to the General Assembly of the Company and read by the Chairman of the Board.

Remunerations and incentives of Company's employees

1. One of the most important objectives of awarding bonuses and remunerations is to establish the principle of belonging to the Company and motivate the employees towards working to achieve the objectives of the Company and raise its level. The Company seeks to ensure that the remunerations system reflects and is commensurate with the functions and responsibilities and is fair and equitable.
2. Remunerations to the employees of the Company shall be adopted based on an evaluation of the level of performance, where remunerations are awarded in accordance with an approved policy, in order to achieve the operational and financial objectives, and based on the employees' individual performance and contribution to achieve the strategic objectives.

Rule Four: Ensuring the integrity of financial reports

Financial reports and the Board of Directors' and Executive Management's commitment to the credibility and integrity of reports

The Board of Directors is responsible for monitoring and reviewing the credibility of the financial statements, accounting policies and information contained in the annual report. In undertaking that responsibility, Board members receive continuous support through certain processes to identify and assess the risks faced by the Company. The independent monitoring process is carried out to ensure the effectiveness of the Executive Management in conducting Company's business and achieving its objectives by the Internal Audit Department, the Risk Management Department and other Board subcommittees.



The credibility and integrity of the financial statements of the Company are among the most important indicators that to the Company's integrity and credibility in presenting its financial position, which increases the confidence of shareholders and investors in the data and information provided by the Company and disclosed to the shareholders. The Executive Management acknowledges to the Board, in writing, that the submitted financial reports are correct and fair and that they include all financial aspects of the Company in terms of data and operating results. These reports are also prepared in accordance with the international accounting standards adopted by the Authority. The annual report submitted to the shareholders from the Board of Directors acknowledges the credibility and integrity of all financial statements and reports related to the Company's activity. These undertakings and acknowledgements contribute to enhancing accountability; whether of the Executive Management to the Board or of the Board to the shareholders.

Independence and impartiality of the Company's external auditor

The Company's Ordinary General Assembly appoints/reassigns the external auditor on the recommendation of the Board. The nomination of the auditor shall be based on the recommendation of the Audit Committee, which shall take into consideration that the auditor shall be registered in the special register of the Authority, so that he fulfills all the conditions stipulated in the Authority's regarding the system of recording the auditors. The Committee shall also ensure that the external auditor is independent of the Company and its Board and that he is not performing any other works to the Company that are not within the scope of auditing, which may affect his neutrality or independence. The Audit Committee shall discuss with the external auditor before submitting the annual financial statements to the Board for decision.

The Company's Ordinary General Assembly held on 19/07/2017 has re-appointed Grand Thornton - Al Qatami and Al-Ayban as the Group Auditor for the current year ending in 31/12/2017.

The external auditor shall attend the Annual General Assembly meeting and shall recite his report to the shareholders of the Company.

Rule Five: Develop sound risk management and internal control systems

Internal Control Systems:

The integrity and credibility of the internal control systems shall be achieved through policies and procedures, automating the processes in line with the policies and procedures adopted for the Company, wise selection of the employees and raising their awareness, as well as an organizational structure that separates responsibilities. Internal control procedures are established to protect the Company's assets and to ensure the approval of the decisions and procedures. Periodic risk assessments are carried out by the Risk Management Department and compliance is being reviewed periodically by the Compliance Department.



Internal Audit:

The Internal Audit Department reports separately to the Audit Committee of the Board. Audits are performed by an internal audit team within the Company, in accordance with the internal audit plan approved by the Audit Committee. Comprehensive reports shall be submitted by the internal auditors directly to the Audit Committee, in addition to adopting appropriate corrective policies and procedures where necessary. The internal audit plan shall be implemented through assessing the effectiveness of the risk control instruments, the risk management and the control and governance systems.

Risk Management:

Arzan has a comprehensive risk management framework that is applied to ensure proper governance of the Company and its related entities. The Board directs the policy and procedures framework and is responsible for risk management and all existing risk control systems in Arzan.

Arzan's Board of Directors ensures integrating the risk management concept into the Company's culture, policies and processes. Risk Management Department enjoy broad powers to perform their duties without granting them any powers and executive and financial powers.

Risk Management Department identifies, evaluates, assesses and reports on all the significant risks to which Arzan is exposed, through key risk indicators identified according to the relevant risk categories, in addition to implementing periodic risk control and monitoring activities, with the preparation and implementation of new audit and control policies. The Department aims to enhance its risk control capabilities through the use of the best IT programs in the field of risk management and assessment. The Risk Management Department reports quarterly to the Board and semi-annually to the Capital Market Authority.

Rule Six: Promoting professional conduct and moral values

Standards and determinants of professional conduct and ethics

Arzan adopts a Code of Conduct, to which the Board, the Executive Management and all employees of the Company are committed. The Code defines the following topics:

Compliance with laws, rules and regulations: The Board of Directors and the Executive Management shall comply with the laws, rules and regulations in force at Arzan and its subsidiaries.

Trading on the basis of internal information: All Board members and officials shall not use any special data and information that are not intended for publication or use



them for the purpose of trading in shares and achieving commercial gains through such data and information.

Interests of the Company: The members of the Board and the officials shall not use the Company's property, information or positions in order to achieve personal interests and gains and shall not compete with the Company, either directly or indirectly.

Competitiveness and fair dealing: The Board and the Company's management are committed to fair treatment and respect for the rights of the Company's customers, suppliers, competitors and employees. Members of the Board or the officials shall not make unfair gains from any party by manipulating or concealing information, misusing any confidential information, misrepresenting fundamental facts or committing any other illegal business practices.

Recordkeeping, financial controls and disclosures: The Company's books, records, accounts and financial statements shall be kept in detail and shall reflect the Company's transactions properly. They may be disclosed in accordance with any applicable laws and regulations, with full compliance with the applicable legal requirements and with the Company's internal regulations.

Confidentiality of information: The members of the Board, the Executive Management and the employees of the Company shall maintain the confidentiality of information and any information owned by the Company and entrusted to them by the Company, its customers or suppliers, unless the disclosure of such information is licensed/required by laws or regulations or if disclosed in accordance with the "need to know" rule.

Protection and proper use of the Company's assets: The Board and Executive Management members are committed to protect the Company's assets, including the Company's proprietary information, including intellectual property rights; such as trade secrets, patents, trademarks and copyrights, as well as service, marketing and trade plans, databases, records, payroll information and any financial statements and unannounced reports. Unauthorized disclosure and distribution is an infringement of the Company's policy and it may also be considered unlawful and would result in civil and criminal penalties.

Financial reporting: The Board of Directors and the Executive Management are responsible for the preparation of financial reports professionally and in accordance international standards, in addition to responding to any inquiries regarding general disclosure requirements to shareholders, stakeholders and any other parties.

Policies and mechanisms to reduce conflicts of interests: The Board has developed policies and mechanisms to reduce cases of conflict of interest, as well as the methods of dealing with them within the framework of corporate governance, taking into account the provisions of the Companies Law. The Company, in its policies, has observed the existence of a clear separation between the interests of the Company and those associated with the Board members, through the Board's establishing mechanisms to put the interests of the Company before the interests of its members. All Board members shall disclose to the Board any interests shared with him the Company, whether directly or indirectly. It is also prohibited for Board members to



participate in any discussion, express opinion or vote on any subjects presented to the Board, where the member has a joint interest, directly or indirectly, with the Company. Employees of the Company may also report, internally, their doubts about any improper practices or suspicious matters in the financial reports, internal control systems or any other matters. The Company shall allow an independent and fair investigation of any matter brought to its attention, ensuring the good-faith reporter shall be protected against any adverse reaction or damage that may result from his reporting of such practices.

Rule Seven: Disclosure and transparency in an accurate and timely manner

Disclosure and transparency

The Company is committed to applying the highest levels of transparency, where the Board has adopted disclosure policies and procedures to ensure accurate and timely information provision to shareholders and stakeholders. The Compliance Department shall coordinate with all departments of the Company to disclose information accurately and in a timely manner to the Capital Market Authority, Kuwait Stock Exchange and to the stakeholders.

The Company has dedicated part of the Company's website to corporate governance, where all the latest information and data shall be presented to help the shareholders and current and prospective investors exercising their rights and evaluating the Company's performance.

The Company has a special record that regulates the disclosures by the Board and Executive Management members. IT infrastructure has been developed to suit the Company's position.

Investors Affairs Regulation Unit

The Investors Regulatory Unit has been established to provide communication and transparency with the shareholders and to respond to their complaints in accordance with approved policies and procedures. In addition, the Unit:

- Supervises the performance of the registrar and the stock transfer agent in the Company.
- Recommend the general development measures in the quality of the services provided to investors.



Rule Eight: Respect of Shareholders' Rights

Protection of the shareholders' general rights to ensure equity and equality among all shareholders

The Company is committed to protecting shareholders' rights through a policy approved by the Board that guarantees protecting their rights and providing them with the exercise of those rights granted by the Commercial Companies Law in the State of Kuwait and the instructions of the Capital Market Authority in the state.

The Company shall treat all shareholders equally and without any discrimination. In no case the Company shall withhold any information from the shareholders or any of their rights. The general rights of the shareholders guaranteed by the Company include the following:

1. Registering the shareholders' propriety value in the Company's records.
2. Shareholders' right to dispose of the shares; ownership registration, assigning and/or transfer.
3. Shareholders' right to receive their share of dividends.
4. Shareholders' right to receive a share of the Company's assets in case of liquidation.
5. The right of shareholders to obtain data and information about the Company's activity and its operational and investment strategy in a regular and easy manner.
6. Shareholders' right to participate in the meetings of the General Assembly of shareholders and vote on their decisions.
7. Shareholders' right to elect the members of the Board of Directors

Ensuring accuracy and continuous follow-up of shareholders' data

For the purpose of continuous follow-up of all shareholders' data, the Company maintains a special record kept by Kuwait Clearing Company, listing the names, nationality and domicile of shareholders, and the number of shares owned by each of them. Any changes in the registered data shall be noted in the Shareholders Register, as per the data received by the Company or the Kuwait Clearing Company. Any interested party may request the Company or the clearing agency any data from the said register.

The data contained in the Company's Shareholders' Register shall be treated with the utmost protection and confidentiality, in a manner consistent with the law, the executive regulations and the instructions issued by the Regulatory Authority.

Data of the Registrar and Stock Transfer Agent

Kuwait Clearing Company
POB: 22077
Safat
Kuwait
info@maqasa.com

Encouraging the shareholders to participate and vote in the Company's General Assembly meetings

The Company establishes a mechanism for participating in the meetings of the General Assembly of shareholders, where the following shall be considered upon conducting those meetings:

1. Inviting the shareholders to attend the General Assembly meeting, where the invitation shall include the agenda, time and venue of the meeting, through announcing according to the mechanism specified in the executive regulations of the Companies Law.
2. The Company shall make it clear to the shareholders that the shareholders are entitled to appoint another person in the presence of the General Assembly, under a special power of attorney or an authorization prepared by the Clearing Agency for this purpose.
3. The Company shall allow the shareholders an opportunity, sufficiently prior to the General Assembly, to obtain all information and data related to the agenda items, with a view to enable the shareholders to make their decisions properly.
4. The Company shall allow the shareholders to participate actively and effectively in the meetings of the General Assembly, discuss the issues on the agenda and the related queries on the different aspects of the activities, addressing the questions thereon to the members of the Board of Directors and the External Auditor. The Board of Directors or the External Auditor shall answer such questions to the possible extent that does not expose the Company's interests.
5. The Company shall allow all shareholders to exercise the right to vote without putting any obstacles that may hinder that voting, since voting is an inherent right of the shareholder and cannot be canceled in any way. The Company guarantees the exercise of all shareholders' rights through the following:
 - Shareholders' enjoying the voting rights granted to them, with the same treatment by the Company.
 - Shareholders' ability to vote in person or by proxy, with the same shareholders' rights and duties, whether in person or by proxy.
 - Inform the shareholders of all rules governing the voting procedures.
 - Provide all voting rights information to both existing shareholders and potential investors.
 - All shareholders are entitled to vote on any changes in shareholders' rights by calling for a General Assembly meeting of shareholders.

- Voting to select the members for the Board of Directors during the General Assembly shall be carried out through the mechanisms stipulated in the Company's Memorandum and Articles of Association, in accordance with the provisions of the Companies Law and its Executive Regulations. In addition, the Company shall give a brief on the nominees for the Board membership before voting, giving the stakeholders a clear idea of the professional and technical skills, experience and other qualifications of their candidates.
- All categories of shareholders shall have the opportunity to hold the Board accountable for the tasks entrusted to them.

No fees shall be imposed for the attendance of any class of shareholders in the General Assembly meetings, nor they shall be given any preferential advantage to any other shareholders category.

Rule Nine: Acknowledging the role of stakeholders

Systems and policies that protect the stakeholders' rights

Arzan acknowledges the rights of stakeholders and promotes cooperation between them and the Company in the various fields. The Company's Board has adopted a Stakeholder Rights policy.

Encouraging the stakeholders to participate in following-up the Company's various activities

In order not to conflict with the transactions of stakeholders, whether contracts or transactions with the Company, with the interests of the shareholders, it shall be observed that none of the stakeholders may have any advantage in dealing with the contracts and transactions that fall within the Company's usual activities. The Company sets internal policies and regulations, including a clear mechanism for awarding the contracts and transactions of various types, through tenders or various purchase orders.

The Company has also established mechanisms to ensure maximum benefit from the contributions of stakeholders, encouraging them to participate in following-up the Company's activities, consistently with the full achievement of their interests. The Company provides the stakeholders with access to all information and data relevant to their activities, to be relied upon in a timely and on a regular basis. The Company has also facilitated stakeholders' reporting of any improper practices they may be exposed to by the Company, along with providing appropriate protection for the reporting parties.



Rule Ten: Performance promotion and improvement

Continuous training of Board and Executive Management members

Arzan has developed training plans for the members of the Board and the Executive Management, as well as for all the employees of the Company. Training programs are carried out on a regular basis in accordance with the Company's approved training plan.

Evaluation of the BOD performance as a whole and the performance of each member of the Board of Directors and Executive Management

Evaluation of the performance of the Board of Directors and its Committees:

The Company has adopted approved policies and procedures from the Board of Directors, through which a formal process of reviewing the annual performance of the Board and its Committees is carried out, along with reviewing the effectiveness of their performance and their contribution to the affairs of Arzan Finance Group.

The purpose of the performance appraisal process is to have a formal, structured and consistent way of evaluating the performance of the Board and its Committees, with a view to take steps to improve the performance of the Board. This process will also be used in submitting the Board's recommendations to the shareholders in the members' re-election phase.

Executive Management evaluation performance:

Performance evaluation is a powerful tool for translating business plans into actions, developing the Company's culture to achieve its strategic objectives. The Company assesses the Executive Management through the human resources system (MENAME) according to the key performance indicators approved for each department at the beginning of each year. The performance data obtained during the year shall be consolidated and summarized for a comprehensive annual assessment of all that has been achieved and how such results have been attained.

This process consists of questionnaires covering broad requirements/expectations under the Corporate Governance Guidelines methodology, for self-evaluation of the Board of Directors' performance, with a special evaluation of its committees, and an assessment of the overall performance of the Board; in order to take steps to improve the performance of the Board.



In addition, this evaluation includes the requirements set forth in the Code of the Board of Directors and its Committees, the Company's Code and the Conflict of Interest policies and procedures. This is done through the filling out of the questionnaires listed below by the members of the Board:

- A. Self-Assessment Questionnaire
- B. Committee Evaluation Questionnaire
- C. Board of Directors' Assessment Questionnaire

The Nominations and Remuneration Committee has reviewed these assessments and submitted a brief report to the Board of Directors on its recommendations.

Rule Eleven: Focusing on the importance of social responsibility

Achieving a balance between each of the Company's objectives, the goals of society and the programs and mechanisms used in the field of social work

The Company is committed to achieving sustainable development for society and the economy, in general, and for its employees in particular. The Company adopts a social responsibility policy approved by the Board of Directors to ensure its contribution to sustainable social and economic development. The Risk Committee has adopted the updates on the Social Responsibility Policies and Procedures, in its 4th meeting, held on 24/12/2017 and shall be presented to the Board in its next meeting in 2018.



Tel : +(965) 2242 6999
Fax : +(965) 2240 1666
www.bdointernational.com

Al Shaheed Tower, 6th Floor
Khaled Ben Waleed Street, Sharq
P.O. Box 25578, Safat 13116
Kuwait



OPINION LETTER

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

25 March, 2018

Dear Sirs,

Review and Assessment of Internal Control Systems

In accordance with our letter of engagement dated 12 December 2017, we have examined and reviewed the internal controls systems of Arzan Financial Group K.P.S.C for the year ended 31 December 2017.

The review covered the following areas:

- Governance
- Investments
- Finance and Accounting
- Corporate Credit
- Human Resources
- Administration
- Risk and Compliance
- Information Technology
- Internal Audit

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 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

OPINION LETTER (CONTINUED)

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

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 2017, 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 2017, 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, 2018

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:

- the consolidated financial position as at 31 December 2017,
- the related consolidated statement of income,
- consolidated statement of other comprehensive income,
- consolidated statement of changes in equity and
- 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 2017, 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
Wafa Ahmad Al Qatami	Chairman	
Jassem Hasan Zainal	Vice Chairman	
Ibrahim Saleh Al-Tharban	Member – B.O.D.	
Emad Abdullah Al-Essa	Member – B.O.D.	
Ammar Taleb Hajeyah	Member – B.O.D.	
Rami Khaled Abdullah	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, 2018

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:

- the consolidated financial position as at 31 December 2017,
- the related consolidated statement of income,
- consolidated statement of other comprehensive income,
- consolidated statement of changes in equity and
- 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 2017, 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

REMUNERATION REPORT

For the year ending
on 31 December 2017

First: the system of remunerations used by the company and members of the Board of Directors and Executive Management

The Remunerations of the Board of Directors

The Company shall comply with the remuneration system of the Board of Directors as stipulated in Article 198 of the Companies Law No. 1 of 2016 and the approval of the General Assembly shall be taken on the remuneration of the members of the Board of Directors.

Remunerations and incentives for executive management:

Fixed Remuneration: Includes salaries and benefits (including end of service benefits), which are awarded under the grade and salaries scale approved by the Board of Directors, the applicable laws and regulations, and the Human Resources Management Policies and Procedures Manual.

Variable Remuneration: Variable remunerations are linked to the achievement of previously defined objectives. This type of reward is designed to motivate and reward executive management members. Variable Remunerations are allocated according to individual performance of the Member of executive management and the General performance of the company, and the variable Remunerations are offered in cash.

Remunerations and incentives of Company employees

1. One of the most important objectives of awarding remunerations is to consolidate the principle of belonging to the company and motivate employees to work to achieve the objectives of the company and improve its status. The company seeks to ensure that the remuneration system reflects and commensurate with the tasks and responsibilities and is characterized by justice and fairness.
2. The remunerations for the employees of the company are based on an evaluation of the level of performance. The remunerations are awarded according to an approved policy to achieve the operational and financial objectives, the individual performance of the employees and their contribution to achieving the strategic objectives.

Second / Details of the remuneration granted to members of the Board of Directors and the committees emanating from it For the year ending on 31 December 2017

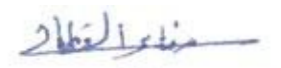
Number	Statement	Medical insurance	Business trips	Annual remunerations	Remuneration of commissions	Total
7	Chairman and members of the Board of Directors	415		42,000		42,415

Third: The values of the remuneration and other benefits to the senior management of the company

Number	Statement	Annual salaries	Social insurances	Life insurance	Medical insurance	Air Tickets	Accrued leave	Business trips	End of Service allowance	Annual remunerations	Total
5	Executive Management	279,950	10,058	4,674	4,968	12,056	36,274	8,521	50,980	350,000	757,480

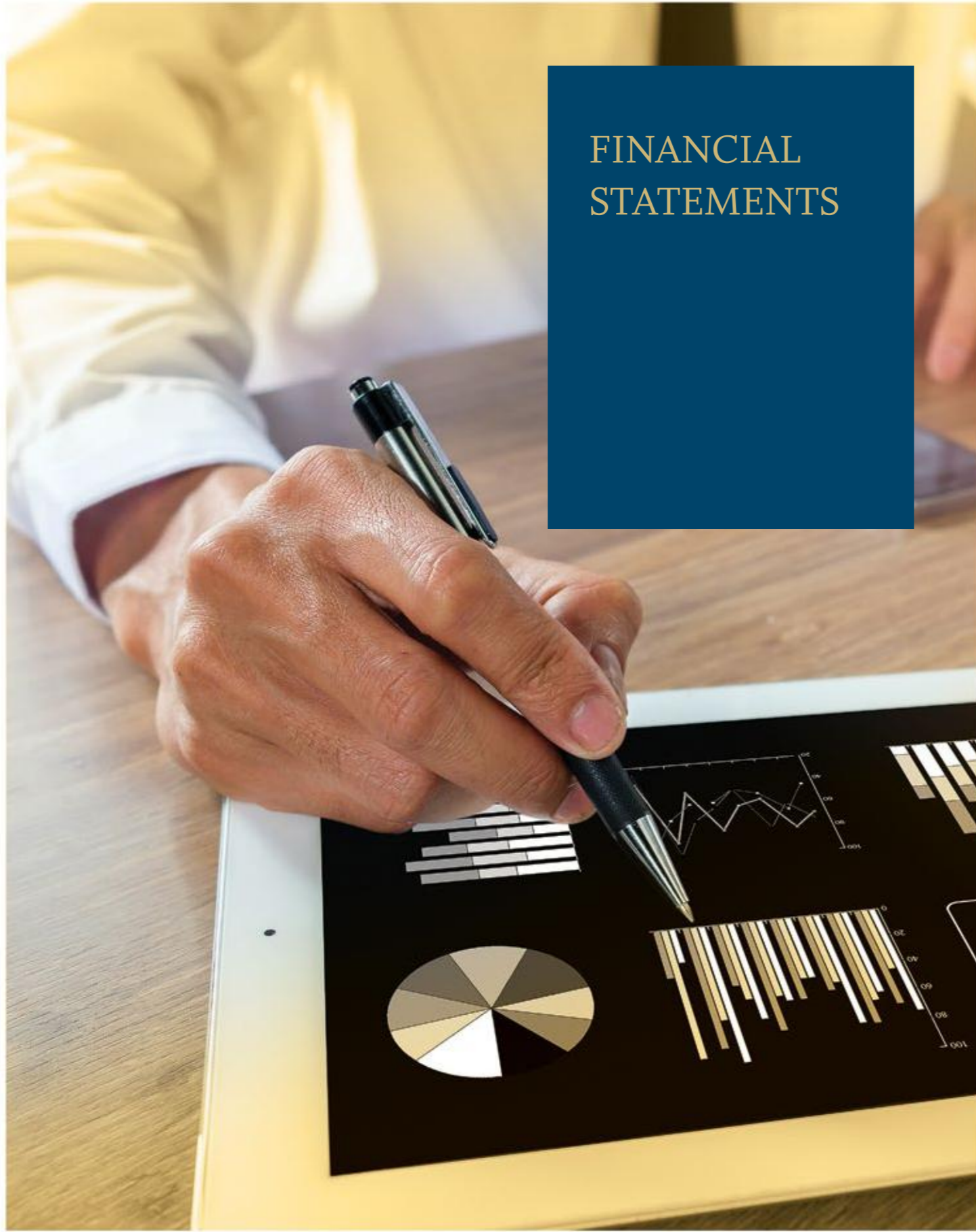
Fourth: Statement of fundamental deviations from the policy of Remuneration

Number	Statement	Medical insurance	Business trips	Annual remunerations	Remuneration of commissions	Total
Not Available						



Head of Nomination Committee

FINANCIAL STATEMENTS



Content

56	Independent auditors' report
62	Consolidated statement of profit or loss
	Consolidated statement of profit or loss and other comprehensive income
63	
64	Consolidated statement of financial position
65	Consolidated statement of changes in equity
67	Consolidated statement of cash flows
69	Notes to the consolidated financial statements

Auditors & Consultants

Souq Al Kabeer Building - Block A, 9th Floor
Tel : +(965) 224 3900-9
Fax : +(965) 2243 8451
E-mail: gt@kw.gt.com
www.grantthornton.com.kw

INDEPENDENT AUDITOR 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 2017, 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 2017, 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 Auditor’s 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.

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

Valuation of Available for Sale Investments

The Group’s available for sale investments include significant unquoted investments. 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. Therefore, there is significant measurement uncertainty involved in valuations. As a result, the valuations 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 Notes 17 and 34.2 to the consolidated financial statements.

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 the 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 auditor 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 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 REPORT to the Shareholders of Arzan Financial Group for Financing and Investment - KPSC (continued)

Other information included in the Group's 2017 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2017 Annual Report, other than the consolidated financial statements and our Auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our Auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our Auditor's 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 Auditor's 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 REPORT to the Shareholders of Arzan Financial Group for Financing and Investment - KPSC (continued)

Auditor's 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 Auditor's 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 Auditor's 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 Auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR 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 Auditor's 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

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

Report on Other Legal and Regulatory Requirements (continued)

of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law, 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 2017 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 2017 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 2017 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

Kuwait
29 March 2018


CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 KD	2016 * KD
Continuing Operations			
Revenue			
Income from instalment credit debtors	7	1,665,992	1,882,075
Rental income		148,786	174,118
Interest income		709,065	503,777
Gain on sale of investments at fair value through profit or loss		299,287	1,914
Change in fair value of investments at fair value through profit or loss		215,465	(1,911)
(Loss)/gain on sale of available for sale investments		(48,214)	15,688
Gain on liquidation of subsidiaries	6.2.1	76,216	-
Loss on deemed disposal of subsidiaries	6.2.2	(46,909)	-
Share of results of associates	18	477,402	437,419
Dividend income	8	1,966,989	2,138,708
Brokerage income		231,951	391,770
Gain on sale of properties held for trading		17,440	-
Reversal of provision for properties held for trading	16	120,561	-
Advisory fees		2,188,642	2,139,853
Loss on foreign currency exchange		(252,520)	(669,381)
Other income		286,863	459,167
		8,057,016	7,473,197
Expenses and other charges			
Staff costs		(2,516,143)	(2,533,815)
General and administrative expenses		(1,522,914)	(1,295,648)
Finance costs	9	(1,712,668)	(1,432,404)
Depreciation		(446,896)	(293,561)
Provision for instalment credit debtors	13	(475,148)	(288,524)
Impairment of available for sale investments	17	(77,105)	(1,221,913)
Impairment of investment in real estate under development	19	(83,850)	(134,161)
		(6,834,724)	(7,200,026)
Profit for the year from continuing operations		1,222,292	273,171
Profit for the year from discontinued operations	(6.2.1 and 6.2.2)	963,725	2,342,197
Profit for the year before provisions for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST)		2,186,017	2,615,368
Provision for KFAS		(587)	-
Provision for NLST		(34,160)	(18,924)
Profit for the year		2,151,270	2,596,444
Attributable to:			
Shareholders of the parent company		1,741,781	671,417
Non-controlling interests		409,489	1,925,027
Profit for the year		2,151,270	2,596,444
Basic and diluted earnings per share attributable to the shareholders of the parent company (Fils)			
- From continuing operations		2.128	0.518
- From discontinued operations		0.058	0.325
Basic and diluted earnings per share attributable to the shareholders of the parent company (Fils)	10	2.186	0.843

* Amount shown here do not correspond with the previously reported consolidated financial statements for the year ended 31 December 2016 as a result of adjustments made for discontinued operations as detailed in Note 6.


CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 KD	2016 KD
Profit for the year	2,151,270	2,596,444
Other comprehensive income/(loss):		
<i>Items that will be reclassified subsequently to consolidated statement of profit or loss:</i>		
Exchange differences arising on translation of foreign operations	2,633,949	(3,994,298)
Available for sale investments:		
- Net change in fair value arising during the year	2,039,023	(707,834)
- Transferred to consolidated statement of profit or loss on sale	14,210	(18,392)
- Transferred to consolidated statement of profit or loss on impairment	77,105	1,221,913
Share of other comprehensive income of associates	108,319	-
Total other comprehensive income/(loss) for the year	4,872,606	(3,498,611)
Total comprehensive income/(loss) for the year	7,023,876	(902,167)
Attributable to:		
Shareholders of the parent company	4,615,566	247,882
Non-controlling interests	2,408,310	(1,150,049)
Total comprehensive income/(loss) for the year	7,023,876	(902,167)



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 KD	2016 KD
Assets			
Cash and cash equivalents	12	7,805,543	10,103,929
Instalment credit debtors	13	8,931,619	11,118,653
Investments at fair value through profit or loss	14	7,905,472	6,814,873
Accounts receivable and other assets	15	4,944,621	5,821,949
Due from related parties	33	191,306	1,104,711
Properties held for trading	16	1,327,865	1,313,947
Available for sale investments	17	86,466,759	98,812,690
Investment in associates	18	28,178,561	47,347,791
Investment in real estate under development	19	4,120,080	4,180,940
Investment properties	20	1,713,944	1,772,684
Property and equipment	21	3,028,056	3,217,772
Total assets		154,613,826	191,609,939
Liabilities and equity			
Liabilities			
Due to banks	22	5,226,027	3,847,752
Accounts payable and other liabilities	23	6,244,242	7,092,993
Due to related parties	33	1,230,500	191,888
Term loans	24	16,380,000	18,730,000
Murabaha payable	25	5,267,067	8,085,878
Provision for employees' end of service benefits		1,175,185	925,579
Total liabilities		35,523,021	38,874,090
Equity			
Share capital	26	80,288,256	80,288,256
Share premium	26	23,803,273	23,803,273
Treasury shares	27	(559,232)	(559,232)
Legal reserve	28	246,687	69,034
Voluntary reserve	28	246,687	69,034
Foreign currency translation reserve		(415,344)	(1,101,706)
Fair value reserve		8,235,780	6,048,357
Retained earnings		1,930,453	580,940
Total equity attributable to the shareholders of the parent company		113,776,560	109,197,956
Non-controlling interests		5,314,245	43,537,893
Total equity		119,090,805	152,735,849
Total liabilities and equity		154,613,826	191,609,939

Jassem Hasan Zainal
Vice chairman and CEO

The notes set out on pages 69 to 131 form an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

Equity attributable to the shareholders of the parent company

	Share capital KD	Share premium KD	Treasury shares KD	Legal reserve KD	Voluntary reserve KD	Foreign currency translation reserve KD	Fair value reserve KD	retained earnings KD	Sub-Total KD	Non-controlling interests KD	Total KD
Balance at 1 January 2017	80,288,256	23,803,273	(559,232)	69,034	69,034	(1,101,706)	6,048,357	580,940	109,197,956	43,537,893	152,735,849
Arising from liquidation and loss of control of subsidiaries (note 6)	-	-	-	-	-	-	-	-	-	(40,668,920)	(40,668,920)
Effect of change in ownership percentage of subsidiary	-	-	-	-	-	-	-	(36,962)	36,962	36,962	-
Transactions with shareholders	-	-	-	-	-	-	-	(36,962)	36,962	(40,631,958)	(40,668,920)
Profit for the year	-	-	-	-	-	-	-	1,741,781	1,741,781	409,489	2,151,270
Other comprehensive income:											
Exchange differences arising on translation of foreign operations	-	-	-	-	-	686,362	-	-	686,362	1,947,587	2,633,949
Available for sale investments:											
- Net change in fair value arising during the year	-	-	-	-	-	-	2,039,023	-	2,039,023	-	2,039,023
- Transferred to consolidated statement of profit or loss on sale	-	-	-	-	-	-	14,210	-	14,210	-	14,210
- Transferred to consolidated statement of profit or loss on impairment	-	-	-	-	-	-	77,105	-	77,105	-	77,105
Share of other comprehensive income of associate	-	-	-	-	-	-	57,085	-	57,085	51,234	108,319
Total other comprehensive income for the year	-	-	-	-	-	686,362	2,187,423	-	2,873,785	1,998,821	4,872,606
Total comprehensive income for the year	-	-	-	-	-	686,362	2,187,423	1,741,781	4,615,566	2,408,310	7,023,876
Transfer to reserves	-	-	-	177,653	177,653	(415,344)	-	(355,306)	-	-	-
Balance at 31 December 2017	80,288,256	23,803,273	(559,232)	246,687	246,687	(415,344)	8,235,780	1,930,453	113,776,560	5,314,245	119,090,805

The notes set out on pages 69 to 131 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2017

	Equity attributable to the shareholders of the parent company											Total KD
	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		
Balance at 1 January 2016	80,288,256	27,142,826	(559,232)	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	-	(3,339,553)	-	(375,497)	(375,497)	-	-	4,090,547	-	-	-	
Effect of change in ownership percentage of subsidiary	-	-	-	-	-	-	-	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	80,288,256	23,803,273	(559,232)	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 69 to 131 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 KD	2016 * KD
OPERATING ACTIVITIES			
Profit for the year		2,151,270	2,596,444
Adjustments:			
Interest income		(709,065)	(503,777)
Dividend income	8	(1,966,989)	(2,138,708)
Impairment of available for sale investments	17	77,105	1,221,913
Impairment of investment in real estate under development		83,850	134,161
(Loss)/gain on sale of available for sale investments		48,214	(15,688)
Gain on sale of properties held for trading		(17,440)	-
Reversal of provision for properties held for trading		(120,561)	-
Gain on liquidation of subsidiaries		(76,216)	-
Loss on deemed disposal of subsidiaries		46,909	-
Share of results of associates	18	(477,402)	(437,419)
Provision for instalment credit debtors		475,148	288,524
Finance costs		1,712,668	1,432,404
Depreciation		446,896	293,562
Provision for employees' end of service benefits		266,152	285,556
		1,940,539	3,156,972
Changes in operating assets and liabilities:			
Instalment credit debtors		1,711,886	2,087,564
Investments at fair value through profit or loss		(1,090,600)	(94,599)
Accounts receivable and other assets		(1,792,427)	(628,000)
Due from / to related parties		881,444	(695,353)
Accounts payable and other liabilities		26,452	214,379
Employees' end of service benefits paid		(14,841)	(88,645)
Net cash from continuing operations		1,662,453	3,952,318
Net cash from/(used in) discontinued operations		127,260	(198,567)
Net cash from operating activities		1,789,713	3,753,751
INVESTING ACTIVITIES			
Purchase of property and equipment	21	(196,725)	(139,708)
Purchase of available for sale investments	17	(11,548,027)	(27,760,164)
Proceeds from sale of available for sale investments		8,589,006	19,810,065
Proceeds from sale of properties held for trading		124,083	-
Proceeds from liquidation of subsidiaries		1,551,448	-
Additions on real estate portfolio		(22,990)	(206,451)
Dividend income received		1,966,989	2,138,708
Dividend from associates	18	707,512	693,067
Interest income received		320,599	503,777
Net cash from/(used in) investing activities		1,491,895	(4,960,706)

* Amount shown here do not correspond with the previously reported consolidated financial statements for the year ended 31 December 2016 as a result of adjustments made for discontinued operations as detailed in Note 6.

The notes set out on pages 69 to 131 form an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2017

	Notes	2017 KD	2016 * KD
FINANCING ACTIVITIES			
Net change in due to banks		1,378,274	2,185,851
Net increase in term loans		(2,350,000)	5,960,000
Murabaha repaid		(2,818,811)	(2,737,660)
Payments from acquisition of partial interests in subsidiaries		-	(200,479)
Finance costs paid		(1,712,668)	(1,432,404)
Net cash (used in)/from financing activities		(5,503,205)	3,775,308
Net (decrease)/increase in cash and cash equivalents		(2,221,597)	2,568,353
Foreign currency adjustment		(76,789)	(36,494)
Cash and cash equivalents at beginning of the year	12	10,103,929	7,307,640
Cash and cash equivalents included in disposal group		-	264,430
Cash and cash equivalents at end of the year	12	7,805,543	10,103,929
Non-cash transaction:			
Accounts receivable and other assets		(2,669,755)	-
Due from/to related parties		(1,070,574)	(164,074)
Accounts payables and other liabilities		875,202	935,988

* Amount shown here do not correspond with the previously reported consolidated financial statements for the year ended 31 December 2016 as a result of adjustments made for discontinued operations as detailed in Note 6.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

31 December 2017

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.
- Mediate in the operations of lending, borrowing, brokerage and warrantees against commission or pay.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

1. Incorporation and activities (continued)

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

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

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

The Parent company's board of directors approved these consolidated financial statements for issue on 29 March 2018. The general assembly of the parent company's shareholders has the power to amend these consolidated financial statements after issuance.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 Changes in accounting policies

3.1 New and amended standards adopted by the group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2017 which have been adopted by the group. Information on these new standards is presented below:

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

IAS 7 Statement of Cash Flows- Amendments

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

The Amendments:

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

The group's liabilities arising from financing activities comprise of due to banks, term loans and murabaha payables (notes 22, 24 and 25). A reconciliation between the opening and closing balances of these items is provided in Note 29. Apart from these additional disclosures the application of the amendments did not have any impact on the consolidated financial statements of the group.

Annual Improvements to IFRSs 2014-2016 Cycle

Amendments to IFRS 12 - Clarifies the scope of IFRS 12 by specifying that its disclosure requirements (except for those in IFRS 12. B10-B16) apply to an entity's interests in a subsidiary, joint venture or an associate irrespective of whether they are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with IFRS 5.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 Changes in accounting policies (continued)

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

The application of the amendments did not have any impact on the consolidated financial statements of the group as none of the group entities are classified as, or included in disposal group that is classified as held for sale.

3.2 IASB Standards issued but not yet effective

At the date of authorisation of this 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 information.

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments	No stated date
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
IAS 40 Investment Property - Amendments	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

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

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 Changes in accounting policies (continued)

3.2 IASB Standards issued but not yet effective (continued)

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

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. Management anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future should such transactions arise.

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.

The main areas of expected impact are as follows:

- the classification and measurement of the financial assets 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 Changes in accounting policies (continued)

3.2 IASB Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and Fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Further, the gains and losses on subsequent measurement of debt type financial instruments measured at Fair Value Through Other Comprehensive Income (FVOCI) will be recognised in equity and will be recycled to profit or loss on derecognition or reclassification.

However, gains or losses on subsequent measurement of equity type financial assets measured at FVOCI will be recognised in equity and not recycled to profit or loss on derecognition. Dividend income on these assets will continue to be recognised in profit or loss.

Based on the analysis of the group's financial assets and liabilities as at 31 December 2017 and of the circumstances that existed at that date, management of the group have determined the impact of implementation of IFRS 9 on the consolidated financial statements of the group as follows:

Classification and measurement:

Equity investments are to be measured at FVTPL as well as FVTOCI as certain existing investments in equity instruments qualify for designation as FVTOCI category. The gains and losses on these investments will no longer be recycled to statement of profit or loss on subsequent measurement or on derecognition. Further, these investments are no longer subject to impairment test.

No material impact on the net equity balance of the group is expected as a result of the reclassification of the equity investments.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Management analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

There is no impact on the financial liabilities of the group and will continue to be measured at amortised cost.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 Changes in accounting policies (continued)

3.2 IASB Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

Impairment:

IFRS 9 requires the Group to record expected credit losses on all of its instalment credit loans and trade receivables. Instalment credit debtors are subject to the minimum provisioning requirements of the Central Bank of Kuwait. Management believes that the impairment allowance for the instalment credit debtors under the CBK requirements exceed the requirements of IFRS 9.

The group expects to apply simplified approach to impairment for accounts receivable and due from related parties as required or permitted under the standard.

The management is in the process of assessing the impact of this approach and does not expect any material impact to the consolidated financial statements from applying this simplified approach.

IFRS 15 Revenue from Contracts with Customers

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

The five steps in the model are as follows:

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

The standard includes important guidance, such as

- Contracts involving the delivery of two or more goods or services – when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts
- Timing – whether revenue is required to be recognized over time or at a single point in time
- Variable pricing and credit risk – addressing how to treat arrangements with variable or contingent (e.g. performance-based) pricing, and introducing an overall constraint on revenue
- Time value – when to adjust a contract price for a financing component
- Specific issues, including –
 - o non-cash consideration and asset exchanges
 - o contract costs
 - o rights of return and other customer options
 - o supplier repurchase options
 - o warranties
 - o principal versus agent
 - o licencing
 - o breakage
 - o non-refundable upfront fees, and
 - o consignment and bill-and-hold arrangements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 Changes in accounting policies (continued)

3.2 IASB Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

The Group has assessed the impact of IFRS 15. Based on this assessment adoption of IFRS 15 are not expected to have any material effect on the Group’s consolidated financial statements.

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.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Group’s consolidated financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle

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 after 1 January 2018.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Group’s consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

3 Changes in accounting policies (continued)

3.2 IASB Standards issued but not yet effective (continued)

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.

Management does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

4 Significant accounting policies (continued)

4.2 Basis of consolidation (continued)

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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

4. Significant accounting policies (continued)

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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

4. Significant accounting policies (continued)

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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

4. Significant accounting policies (continued)

4.10 Investment in associate (continued)

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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

4. Significant accounting policies (continued)

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
 - (b) 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

31 December 2017

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.

- **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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

4. Significant accounting policies (continued)

4.11 Financial instruments (continued)

4.11.2 Classification and subsequent measurement of financial assets (continued)

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:

- **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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

4. Significant accounting policies (continued)

4.11 Financial instruments (continued)

4.11.3 Classification and subsequent measurement of financial liabilities (continued)

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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

4. Significant accounting policies (continued)

4.15 Fair value of financial instruments (continued)

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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

4. Significant accounting policies (continued)

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

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

31 December 2017

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

31 December 2017

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

31 December 2017

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

4. Significant accounting policies (continued)

4.27 Foreign currency translation (continued)

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.

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:



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

5 Significant management judgements and estimation uncertainty (continued)

5.1 Significant management judgments (continued)

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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

5. Significant management judgements and estimation uncertainty (continued)

5.2 Estimates uncertainty (continued)

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.

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

31 December 2017

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		Place of incorporation	Principal activities	Reporting date
	as at 31 December 2017	2016			
Al-Addan Real Estate Co. – SPC	100%	100%	Kuwait	Trading in all real estate activities	31 December 2017
Arzan CC for Collection Co. – SPC	100%	100%	Kuwait	Trading in real estate activities and collecting money on behalf of others	31 December 2017
Kuwait Invest Real Estate Co.– WLL	51%	51%	Kuwait	Real estate services	31 December 2017
International Finance Company – SAL	100%	100%	Lebanon	Finance services including financing, management and brokerage	30 September 2017
IFA Securities Brokerage Co.- SAE	84.55%	84.55%	Egypt	Brokerage services	30 September 2017
International Financial Advisers Company – WLL	65.20%	65.20%	Jordan	Brokerage services	30 September 2017
Saudi Invest Real Estate Co. – WLL	100%	100%	Saudi Arabia	Real estate services	31 December 2017
Arzan Wealth (DIFC) Co. Limited	100%	100%	United Arab Emirates	Financial advisory services	30 September 2017
Arzan VC for Projects Management –WLL	99%	99%	Kuwait	Projects management	31 December 2017
Arzan VC I Ltd.	100%	100%	United Arab Emirates	Projects management	31 December 2017
Hilltop 1 UK Limited (6.2.1)	-	6.61%	United Kingdom	Real estate	30 September 2017
Hilltop 3 UK Limited (6.2.2)	-	17.52%	United Kingdom	Real estate	30 September 2017
Hilltop 4 UK Limited (6.2.2)	-	9.95%	United Kingdom	Real estate	30 September 2017
Hilltop 5 UK Limited (6.2.2)	-	35.98%	United Kingdom	Real estate	30 September 2017
Hilltop Norway Limited (6.2.1)	-	9.86%	Norway	Real estate	30 September 2017
Hilltop Germany Limited (6.2.1)	-	7.66%	Germany	Real estate	30 September 2017
HI Equity Company Ltd.	99.29%	99.29%	Cayman Islands	Real estate	30 September 2017
HI Debt Company Ltd.	99.29%	99.29%	Cayman Islands	Real estate	30 September 2017
Arzan Capital	100%	100%	United Arab Emirates	Holding Company	30 September 2017
Arzan AM Limited	100%	100%	United Arab Emirates	General Trading	31 December 2017
Arzan Real Estate Co. – SAE*	80%	-	Egypt	Real estate	30 September 2017

During the year, the group established a new subsidiary under the name of Arzan Real Estate Company - SAE, in Egypt with investment in share capital of EGP 63,800 (equivalent to KD1,076) representing its 80% ownership interest in the subsidiary.


NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

6. Subsidiaries (continued)
6.2 Discontinued operations
6.2.1 Liquidation of subsidiaries

During the year, the Group liquidated the subsidiaries Hilltop 1 UK Limited, Hilltop Norway Limited and Hilltop Germany Limited for a total aggregate consideration of KD1,551,448 resulting into a gain of KD76,216.

At the date of liquidation, the carrying amounts of subsidiaries' net assets and its operating results up to the date of liquidation were as follows:

	Hilltop 1 UK Limited 30 Sept. 2017 KD	Hilltop Norway Limited 30 Sept. 2017 KD	Hilltop Germany Limited 30 Sept. 2017 KD	Total 30 Sept. 2017 KD
Total assets	3,035,581	7,746,562	7,853,993	18,636,136
Total liabilities	37,678	481,516	535,225	1,054,419
Net assets as at date of liquidation	2,997,903	7,265,046	7,318,768	17,581,717
Share of net assets on liquidation	198,281	716,333	560,618	1,475,232
Sale proceeds	214,523	758,444	578,481	1,551,448
Gain on liquidation	16,242	42,111	17,863	76,216

	Hilltop 1 UK Limited 30 Sept. 2017 KD	Hilltop Norway Limited 30 Sept. 2017 KD	Hilltop Germany Limited 30 Sept. 2017 KD	Total 30 Sept. 2017 KD	Total 31 Dec. 2016 Total
Revenue	73,618	327,070	288,671	689,359	934,543
Expenses	(1,588)	(3,174)	(3,133)	(7,895)	(18,218)
Profit for the year from discontinued operations	72,030	323,896	285,538	681,464	916,325

	Hilltop 1 UK Limited 30 Sept. 2017 KD	Hilltop Norway Limited 30 Sept. 2017 KD	Hilltop Germany Limited 30 Sept. 2017 KD	Total 30 Sept. 2017 KD	Total 31 Dec. 2016 Total
Operating activities	104,466	3,516	1,525	109,507	(434,661)
Investing activities	(104,038)	-	-	(104,038)	412,396
	428	3,516	1,525	5,469	(22,265)


NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

6. Subsidiaries (continued)
6.2 Discontinued operations (continued)
6.2.2 Deemed disposal of subsidiaries

In prior periods and as a result of contractual agreements with other investors in Hilltop 3 UK Limited, Hilltop 4 UK Limited and Hilltop 5 UK Limited, the group controlled these entities through ownership of class "A" shares in the respective subsidiaries which allowed the group to exercise majority voting rights. During the year the group waived its ownership along with all related rights in class "A" shares in those investees to an independent trust. Accordingly, the group's control over these subsidiaries was lost. Therefore, the group reclassified these investments to available for sale investments. The reclassification resulted into a loss of KD46,909.

At the date of disposal, the carrying amounts of the above subsidiaries' assets and its operating results up to date of disposal were as follows:

	Hilltop 3 UK Limited 30 Sept. 2017 KD	Hilltop 4 UK Limited 30 Sept. 2017 KD	Hilltop 5 UK Limited 30 Sept. 2017 KD	Total 30 Sept. 2017 KD
Total assets	10,223,971	7,937,581	9,282,791	27,444,343
Total liabilities	40,783	-	191,591	232,374
Net assets as at date of disposal	10,183,188	7,937,581	9,091,200	27,211,969
Share of net assets disposed	1,784,883	825,361	3,271,014	5,881,258
Fair value of consideration (available for sale investment)	1,558,320	1,005,014	3,271,014	5,834,348
(Loss)/gain on deemed disposal of subsidiaries	(226,562)	179,653	-	(46,909)

	Hilltop 3 UK Limited 30 Sept. 2017 KD	Hilltop 4 UK Limited 30 Sept. 2017 KD	Hilltop 5 UK Limited 30 Sept. 2017 KD	Total 30 Sept. 2017 KD	Total 31 Dec. 2016 Total
Revenue	(152,140)	567,506	36	415,402	1,442,119
Expenses	(5,346)	(7,415)	(120,379)	(133,140)	(16,247)
(Loss)/profit for the year from discontinued operation	(157,486)	560,091	(120,343)	282,262	1,425,872

Cash flows generated from discontinued operations for the reporting periods under review are as follows:

	Hilltop 3 UK Limited 30 Sept. 2017 KD	Hilltop 4 UK Limited 30 Sept. 2017 KD	Hilltop 5 UK Limited 30 Sept. 2017 KD	Total 30 Sept. 2017 KD	Total 31 Dec. 2016 Total
Operating activities	(40,897)	502,500	443,454	905,057	(2,377,125)
Investing activities	175,320	(508,015)	(450,571)	(783,266)	2,200,823
	134,423	(5,515)	(7,117)	121,791	(176,302)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

6. Subsidiaries (continued)

6.3 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. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
	%	%	KD	KD	KD	KD
Kuwait Invest Real Estate Co. – WLL	49	49	(525,048)	(180,332)	4,638,471	5,112,285



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

6. Subsidiaries (continued)

6.3 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. 2017	31 Dec. 2016
	KD	KD
Non-current assets	9,501,522	10,452,955
Current assets	7,426	7,522
Total assets	9,508,948	10,460,477
Current liabilities	42,681	27,243
Total liabilities	42,681	27,243
Equity attributable to the shareholders of the parent company	4,827,797	5,320,949
Non-controlling interests	4,638,471	5,112,285
Total equity	9,466,268	10,433,234
	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD	KD
Revenue	(337,713)	(355,660)
Expenses and other charges	(733,813)	(12,364)
Loss for the year attributable to the shareholders of the parent company	(546,478)	(187,692)
Loss for the year attributable to NCI	(525,048)	(180,332)
Loss for the year	(1,071,526)	(368,024)
Total comprehensive loss for the year attributable to the shareholders of the parent company	(493,153)	(187,692)
Total comprehensive loss for the year attributable to NCI	(473,814)	(180,332)
Total comprehensive loss for the year	(966,967)	(368,024)
	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	KD	KD
Net cash flow from operating activities	(96)	-
Net cash outflows	(96)	-



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

7 Income from instalment credit debtors

	Year ended 31 Dec. 2017 KD	Year ended 31 Dec. 2016 KD
Interest income from instalment credit	892,153	929,589
Discount, commission and fees	387,287	329,804
Recovery of written off balances	386,552	622,682
	1,665,992	1,882,075

8. Dividend income

	Year ended 31 Dec. 2017 KD	Year ended 31 Dec. 2016 KD
From:		
Investments at fair value through profit or loss	229,897	201,115
Available for sale investments	1,737,092	1,937,593
	1,966,989	2,138,708

9 Finance costs

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

10. Basic and diluted earnings per share

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

	Year ended 31 Dec. 2017 KD	Year ended 31 Dec. 2016 KD
Profit for the year attributable to shareholders of the parent company from continuing operations (KD)	1,695,515	412,287
Profit for the year attributable to shareholders of the parent company from discontinued operations (KD)	46,266	259,130
	1,741,781	671,417
Weighted average number of shares outstanding during the year (excluding treasury shares) – shares	796,798,664	796,798,664
Basic and diluted earnings per share attributable to the shareholders of the parent company – Fils		
- From continuing operations	2.128	0.518
- From discontinued operations	0.058	0.325
Total (Fils)	2.186	0.843

11 Net gain on financial assets

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

	Year ended 31 Dec. 2017 KD	Year ended 31 Dec. 2016 KD
Cash and cash equivalents	709,065	503,777
Instalments credit debtors	1,190,844	1,593,551
Investments at fair value through profit or loss	744,649	201,118
Available for sale investments	1,611,773	731,368
Net realised and unrealised gain	4,256,331	3,029,814
Net unrealised loss recognised directly in equity	2,238,657	495,687
	6,494,988	3,525,501



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

12 Cash and cash equivalents

	31 Dec. 2017 KD	31 Dec. 2016 KD
Cash and bank balances	4,607,292	6,536,799
Term deposits – 1 to 3 months	3,198,251	3,567,130
	7,805,543	10,103,929

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

13. Instalment credit debtors

	31 Dec. 2017 KD	31 Dec. 2016 KD
Gross instalment credit debtors	12,414,947	14,598,812
Deferred income	(1,364,486)	(1,603,010)
	11,050,461	12,995,802
Specific provision for doubtful debts	(2,000,048)	(1,682,970)
General provision for doubtful debts	(118,794)	(194,179)
	8,931,619	11,118,653

Gross instalment credit debtors are repayable as follows:

	31 Dec. 2017 KD	31 Dec. 2016 KD
Within one year	3,221,459	4,516,642
More than a year	9,193,488	10,082,170
	12,414,947	14,598,812

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

13. Instalment credit debtors (continued)

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

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

	31 December 2017			31 December 2016		
	Specific provision KD	General provision KD	Total KD	Specific provision KD	General provision KD	Total KD
Opening balance	1,682,970	194,179	1,877,149	1,361,267	219,950	1,581,217
Foreign currency translation	(18,627)	(1,505)	(20,132)	7,408	-	7,408
Write off	(213,323)	-	(213,323)	-	-	-
Charge for the year	472,245	2,903	475,148	288,524	-	288,524
Transfer	76,783	(76,783)	-	25,771	(25,771)	-
Closing balance	2,000,048	118,794	2,118,842	1,682,970	194,179	1,877,149

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 KD817,066 (31 December 2016: KD308,514) in respect of related parties (note 33). 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. 2017 KD	31 Dec. 2016 KD
Local quoted shares	881,992	830,399
Foreign quoted shares	61,013	54,268
Investments in managed portfolios	6,962,467	5,930,206
	7,905,472	6,814,873

The investments in managed portfolios with fair value of KD6,479,050 (31 December 2016: KD5,930,206) 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

31 December 2017

15. Accounts receivable and other assets

	31 Dec. 2017 KD	31 Dec. 2016 KD
Trade receivables	3,571,646	6,603,749
Provision for doubtful debts	(1,491,723)	(1,491,723)
	2,079,923	5,112,026
Staff loans receivable	5,944	105
Prepayments and refundable deposits	19,651	59,716
Advance payments to purchase of available for sale investments	1,206,370	-
Other assets	1,632,733	650,102
	4,944,621	5,821,949

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. 2017 KD	31 Dec. 2016 KD
Balance at 1 January	1,934,714	1,934,714
Disposal during the year	(135,369)	-
	1,799,345	1,934,714
Provision for properties held for trading	(471,480)	(620,767)
Balance at 31 December	1,327,865	1,313,947

As a result of impairment testing of the carrying value of the properties there was 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 as of the date of the consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

17 Available for sale investments

	31 Dec. 2017 KD	31 Dec. 2016 KD
Local quoted shares	6,133,960	5,609,999
Local unquoted shares	12,734,773	9,642,221
Foreign unquoted shares	36,614,707	52,032,605
Investments in managed portfolios	30,790,517	31,317,258
Investment in managed funds	192,802	210,607
	86,466,759	98,812,690

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

	31 Dec. 2017 KD	31 Dec. 2016 KD
Balance at 1 January	98,812,690	91,573,129
Additions during the year	11,548,028	27,760,164
Sale during the year	(8,623,010)	(19,812,768)
Change in fair value	2,039,025	(707,835)
Arising on liquidation and loss of control of subsidiaries - net	(17,309,974)	-
Balance at 31 December	86,466,759	98,812,690

The unquoted investments include investments having a carrying value of KD11,728,416 (31 December 2016: KD37,680,555) 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 KD35,953,779 (31 December 2016: KD44,814,770) 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 KD77,105 (31 December 2016: KD1,221,913) 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

31 December 2017

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
		2017	2016	
		%	%	
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 (note 6.1.1)	United Kingdom	-	84.32	Real estate
Surtees LP (note 6.1.2)	United Kingdom	-	96.96	Real estate
Hunt Property LP (note 6.1.2)	United Kingdom	-	97.84	Real estate

All associates are unquoted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

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	
	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Assets	23,860,549	22,501,388	49,017,903	44,279,032	-	8,309,900	-	18,252,657	-	20,500,688
Current	5,009,448	1,847,679	20,369,555	13,908,743	-	195,690	-	1,258,655	-	4,003,376
Non-current	18,851,101	20,653,709	28,648,348	30,370,289	-	8,114,210	-	16,994,002	-	16,497,312
Liabilities	858,752	972,783	21,596,377	19,547,970	-	5,146,391	-	8,461,003	-	13,462,687
Current	227,510	404,693	6,069,989	4,822,306	-	292,965	-	608,414	-	624,902
Non-current	631,242	568,090	15,526,388	14,725,664	-	4,853,426	-	7,852,589	-	12,837,785
Non-controlling interests	23,001,797	21,528,605	27,421,526	24,731,062	-	3,163,509	-	9,791,654	-	7,038,001
	(3,998,753)	(622,695)	(300,573)	(59,999)	-	-	-	-	-	-
Net assets	19,003,044	20,905,910	27,120,953	24,671,063	-	3,163,509	-	9,791,654	-	7,038,001
Group's share of net assets	9,501,522	10,452,955	9,225,850	8,408,221	-	2,667,471	-	9,493,988	-	6,885,980
Goodwill	-	-	8,039,252	8,172,801	-	-	-	-	-	-
Carrying amount	9,501,522	10,452,955	17,265,102	16,581,022	-	2,667,471	-	9,493,988	-	6,885,980
Revenue	221,645	611,431	8,351,828	7,861,935	-	439,084	-	1,430,487	-	3,542,977
Net (loss)/profit	(1,393,705)	(711,340)	3,869,582	1,915,921	-	214,640	-	560,783	-	917,775
Total comprehensive (loss)/income	(466,305)	(711,340)	3,880,639	1,915,921	-	214,640	-	560,783	-	917,775
Group's share of results	(1,055,993)	(355,660)	1,315,604	651,386	-	180,984	-	543,735	-	897,951
Dividend received	-	-	635,283	635,283	-	186,996	-	558,339	-	519,723

The remaining associates are considered immaterial to the group.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

18. Investment in associates (continued)

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

	31 Dec. 2017	31 Dec. 2016
	KD	KD
Aggregate share in associates' assets and liabilities:		
Assets	1,608,277	1,338,184
Liabilities	196,340	(71,809)
	1,411,937	1,266,375
Aggregate share in associates' results:		
Revenue	285,332	243,934
Profit for the year	217,791	141,693
Group's share of total comprehensive income	217,791	141,693
Dividends received	72,229	57,784

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

	31 Dec. 2017	31 Dec. 2016
	KD	KD
At 1 January	47,347,791	50,604,203
Arising on liquidation and loss of control of subsidiaries	(19,047,439)	-
Share of results	1,195,682	2,060,089
Dividends	(707,512)	(1,958,125)
Impairment	(718,280)	-
Capital reduction	-	(304,324)
Foreign currency translation of foreign associates	-	(3,054,052)
Share of other comprehensive income	108,319	-
At 31 December	28,178,561	47,347,791

Part of one of the investments in associate with a carrying value of KD7,629,156 (31 December 2016: KD7,326,873) is pledged against term loans (note 24).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

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. 2017	31 Dec. 2016
	KD	KD
At 1 January	4,180,940	4,108,650
Additions	22,990	206,451
Impairment in value	(83,850)	(134,161)
At 31 December	4,120,080	4,180,940

As a result of impairment testing to the carrying value of the property, the group recognised an impairment loss of KD83,850 (31 December 2016: KD134,161). 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

31 December 2017

20. Investment properties

	Land KD	Building KD	Total KD
Cost			
1 January 2017	1,023,750	1,484,989	2,508,739
31 December 2017	1,023,750	1,484,989	2,508,739
Accumulated depreciation			
1 January 2017	-	736,055	736,055
Charge for the year	-	58,740	58,740
31 December 2017	-	794,795	794,795
Net book value			
At 31 December 2017	1,023,750	690,194	1,713,944
Fair value as at 31 December 2017	2,254,963	710,412	2,965,375
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

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

31 December 2017

21. Property and equipment

	Land KD	Building KD	Office equipment and computers KD	Fixtures and decoration KD	Computer software KD	Work in progress KD	Total KD
31 December 2017:							
Cost							
At 1 January	1,316,250	1,989,303	607,608	326,823	211,679	692,761	5,144,424
Additions	-	-	16,821	91,371	88,533	-	196,725
Transferred	-	-	-	-	692,761	(692,761)	-
Foreign currency translation differences	-	11,303	3,116	1,325	11,482	-	27,226
At 31 December	1,316,250	2,000,606	627,545	419,519	1,004,455	-	5,368,375
Accumulated depreciation							
At 1 January	-	985,762	483,624	293,949	163,317	-	1,926,652
Charge for the year	-	80,597	72,248	20,606	214,705	-	388,156
Foreign currency translation differences	-	(19,974)	38,818	3,788	2,879	-	25,511
At 31 December	-	1,046,385	594,690	318,343	380,901	-	2,340,319
Net book value							
At 31 December 2017	1,316,250	954,221	32,855	101,176	623,554	-	3,028,056
31 December 2016:							
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

Work in progress represents the costs incurred on the development of computer softwares. During the year, these assets which were completed and ready for intended use were capitalised in the appropriate categories. 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

31 December 2017

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 4.75% to 5.5% per annum (31 December 2016: 4.5% - 5.5% 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. 2017 KD	31 Dec. 2016 KD
Trade payables	156,552	106,783
Other payables	2,339,305	3,160,353
Accrued interest	99,738	209,202
Provision for staff leave	171,903	174,658
KFAS payable	220,056	219,469
NLST and Zakat payable	2,895,374	2,861,214
Due to shareholders	361,314	361,314
	6,244,242	7,092,993

24. Term loans

The outstanding term loan is obtained from a local bank, carries interest rate 5.75% (31 December 2016: 5.25%) per annum and repayable in 18 equal quarterly instalments starting from 30 March 2018 and ending on 30 June 2022.

Loans are repayable as follows:

	31 Dec. 2017 KD	31 Dec. 2016 KD
Within one year	3,640,000	7,330,000
After one year	12,740,000	11,400,000
	16,380,000	18,730,000

The term loan is 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).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

25. Murabaha payable

This represents Islamic financing obtained from local and foreign financial institutions, carrying an effective profit rate of 3% to 5.75% (31 December 2016: 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 (notes 17, 20 and 21) and payable in various instalments ending in 2021.

Murabaha payable is due as follows:

	31 Dec. 2017 KD	31 Dec. 2016 KD
Within one year	2,757,654	3,304,835
After one year	2,509,413	4,781,043
	5,267,067	8,085,878

26. Share capital and share premium

As at 31 December 2017, the authorised, issued and paid up share capital of the parent company consists of 802,882,556 shares of 100 fils each (31 December 2016: 802,882,556 shares). All shares are in cash.

The share premium is non distributable.

27. Treasury shares

	31 Dec. 2017	31 Dec. 2016
Number of treasury shares	6,083,892	6,083,892
Percentage of ownership (%)	0.758%	0.758%
Market value (KD)	179,475	185,559
Cost (KD)	559,232	559,232

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

31 December 2017

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

	Due to banks KD	Term loans KD	Murabaha Payables KD	Total KD
Balance at 1 January 2017	3,847,752	18,730,000	8,085,878	30,663,630
Cash flows:				
• Repayment	-	(4,350,000)	(2,784,835)	(7,134,835)
• Proceeds	1,407,608	2,000,000	-	3,407,608
Non-cash items:				
• Foreign currency differences	(29,333)	-	(33,976)	(63,309)
31 December 2017	5,226,027	16,380,000	5,267,067	26,873,094
Balance at 1 January 2016	1,661,901	12,770,000	10,823,538	25,255,439
Cash flows:				
• Repayment	(1,106)	(12,040,000)	(2,770,320)	(14,811,426)
• Proceeds	2,171,188	18,000,000	-	20,171,188
Non-cash items:				
• Foreign currency differences	15,769	-	32,660	48,429
31 December 2016	3,847,752	18,730,000	8,085,878	30,663,630



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

30 Proposed dividends and annual general assembly

Subsequent to the date of the consolidated statement of financial position, the board of directors have proposed not to distribute any dividend for the year ended 31 December 2017. Furthermore, the board of directors have proposed to distribute directors' remuneration of KD42,000 for the year then ended. This proposal is subject to the approval of the general assembly and the regulatory authorities.

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

31 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 KD10,305,554 (31 December 2016: KD5,764,463).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

32 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 2017					
Total revenues	1,833,143	6,745,368	(90,003)	286,788	8,775,296
(Loss)/profit for the year	(2,038,788)	5,104,138	(1,057,154)	143,074	2,151,270
As at 31 December 2017					
Total assets	18,643,951	114,078,909	12,129,078	9,761,888	154,613,826
Total liabilities	4,948,722	30,044,438	529,861	-	35,523,021
Net assets	13,695,229	84,034,471	11,599,217	9,761,888	119,090,805
Year ended 31 December 2016					
Total revenues	2,232,543	4,948,153	118,383	174,118	7,473,197
(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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

33 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. 2017 KD	31 Dec. 2016 KD
Balances included in the consolidated statement of financial position		
Instalment credit debtors-gross (note 13)	817,066	308,514
Due from related parties	191,306	1,104,711
Due to shareholders (note 23)	361,314	361,314
Due to related parties	1,230,500	191,888
Transactions included in the consolidated statement of profit or loss		
Income from instalment credit debtors	56,708	20,148
General expenses	56,501	23,521
Key management compensation:		
Salaries and other short term benefits	554,217	514,637
End of service benefits	47,823	45,277


NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

34 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.

34.1 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. 2017 KD	31 Dec. 2016 KD
US Dollar	24,720,979	20,182,677
Lebanese Lira	7,300,044	7,475,975
GBP	6,433,989	4,683,665
Egyptian Pound	1,282,388	1,082,360
UAE Dirham	148,612	146,890
Saudi Riyal	(8,458)	(7,908)
Euro	6,896,478	1,142,634
Omani Riyal	54,085	54,085
Jordanian Dinar	872,939	882,947
Norwegian Korone	-	817,817

The following table details the group's sensitivity to a 2% (2016: 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 31 Dec. 2017 KD	+2% Impact 31 Dec. 2016 KD	-2% Impact 31 Dec. 2016 KD	-2% Impact 31 Dec. 2016 KD
Profit for the year	227,886	206,902	(227,886)	(206,902)
Equity	730,936	522,319	(730,936)	(522,319)


NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

34 Risk management objectives and policies (continued)
34.1 Market risk (continued)
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.

The group's interest rate exposure based on earlier of contractual repricing arrangements and maturity at 31 December 2017 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 %
Assets								
Cash and cash equivalents	4,607,292	3,198,251	-	7,805,543	-	-	7,805,543	1.35%
Instalment credit debtors	383,135	287,421	2,550,903	3,221,459	5,710,160	-	8,931,619	2.5%-8%
Investments at fair value through profit or loss	-	-	-	-	-	7,905,472	7,905,472	-
Accounts receivable and other assets	-	-	-	-	-	4,944,621	4,944,621	-
Due from related parties	-	-	-	-	-	191,306	191,306	-
	4,990,427	3,485,672	2,550,903	11,027,002	5,710,160	13,041,399	29,778,561	-
Liabilities								
Due to banks	5,226,027	-	-	5,226,027	-	-	5,226,027	4.75%
Accounts payable and other liabilities	-	-	-	-	-	6,244,242	6,244,242	5.50%
Due to related parties	-	-	-	-	-	1,230,500	1,230,500	-
Term loans	-	910,000	2,730,000	3,640,000	12,740,000	-	16,380,000	-
Murabaha payable	949,414	-	1,808,240	2,757,654	2,509,413	-	5,267,067	5.75%
Provision for employees' end of service benefits	-	-	-	-	-	1,175,185	1,175,185	3%-5.75%
	6,175,441	910,000	4,538,240	11,623,681	15,249,413	8,649,927	35,523,021	-



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

34 Risk management objectives and policies (continued)

34.1 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 %
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	4.5-5.5%
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	

The following table illustrates the sensitivity of the result for the year to a reasonably possible change in interest rates of +1% and -1% (2016: +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. 2017		31 Dec. 2016	
	+ 1% KD	-1% KD	+ 1% KD	- 1% KD
Results for the year	(101,359)	101,359	(94,410)	94,410



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

34 Risk management objectives and policies (continued)

34.1 Market risk (continued)

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 2017 and 2016 would have been as follows:

	Profit for the year		Equity	
	31 Dec. 2017 KD	31 Dec. 2016 KD	31 Dec. 2017 KD	31 Dec. 2016 KD
Investments at fair value through profit or loss	±790,547	±681,487	-	-
Available for sale investments	-	-	±8,646,676	±9,881,269

34.2 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. 2017 KD	31 Dec. 2016 KD
Cash and cash equivalents	7,805,543	10,103,929
Instalment credit debtors	8,931,619	11,118,653
Investments at fair value through profit or loss (note 14)	6,962,467	5,930,206
Accounts receivable and other assets	4,944,621	5,821,949
Due from related parties	191,306	1,104,711
Total	28,835,556	34,079,448


NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

34 Risk management objectives and policies (continued)
34.3 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 2017						
Cash and cash equivalents	2,234,712	662,939	4,904,551	-	3,341	7,805,543
Instalment credit debtors	2,517,442	-	6,414,177	-	-	8,931,619
Investments at fair value through profit or loss	7,361,041	55,669	5,344	-	483,418	7,905,472
Accounts receivable and other assets	1,752,747	1,820,980	1,370,894	-	-	4,944,621
Due from related parties	111,416	71,202	8,688	-	-	191,306
Properties held for trading	-	1,327,865	-	-	-	1,327,865
Available for sale investments	49,852,052	2,627,869	332,754	12,527,625	21,126,459	86,466,759
Investment in associates	28,178,561	-	-	-	-	28,178,561
Investment in real estate under development	4,120,080	-	-	-	-	4,120,080
Investment properties	1,713,944	-	-	-	-	1,713,944
Property and equipment	2,959,279	1,631	67,146	-	-	3,028,056
Total	100,801,274	6,568,155	13,103,554	12,527,625	21,613,218	154,613,826
At 31 December 2016						
Cash and cash equivalents	3,057,366	408,129	4,761,792	65,865	1,810,777	10,103,929
Installment 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

31 December 2017

34 Risk management objectives and policies (continued)
34.4 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 2017:

	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	4,607,292	3,198,251	-	7,805,543	-	7,805,543
Installment credit debtors	383,135	287,421	2,550,903	3,221,459	5,710,160	8,931,619
Investments at fair value through profit or loss	7,905,472	-	-	7,905,472	-	7,905,472
Accounts receivable and other assets	414,955	1,044,828	3,484,838	4,944,621	-	4,944,621
Due from related parties	-	-	191,306	191,306	-	191,306
Properties held for trading	-	-	1,327,865	1,327,865	-	1,327,865
Available for sale investments	-	-	-	-	86,466,759	86,466,759
Investment in associates	-	-	-	-	28,178,561	28,178,561
Investment in real estate under development	-	-	-	-	4,120,080	4,120,080
Investment properties	-	-	-	-	1,713,944	1,713,944
Property and equipment	-	-	-	-	3,028,056	3,028,056
Total assets	13,310,854	4,530,500	7,554,912	25,396,266	129,217,560	154,613,826
LIABILITIES						
Due to banks	5,226,027	-	-	5,226,027	-	5,226,027
Accounts payable and other liabilities	312,479	510,879	2,560,331	3,383,689	2,860,553	6,244,242
Due to related parties	-	-	1,230,500	1,230,500	-	1,230,500
Term loans	-	910,000	2,730,000	3,640,000	12,740,000	16,380,000
Murabaha payable	949,414	-	1,808,240	2,757,654	2,509,413	5,267,067
Provision for employees' end of service benefits	-	-	-	-	1,175,185	1,175,185
Total liabilities	6,487,920	1,420,879	8,329,071	16,237,870	19,285,151	35,523,021



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

34 Risk management objectives and policies (continued)

34.4 Liquidity risk (continued)

Maturity profile of assets and liabilities at 31 December 2016:

	Up to 1 month	1-3 months	3-12 months	Sub-total Up to 1 year	Over 1 year	Total
	KD	KD	KD	KD	KD	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

31 December 2017

34 Risk management objectives and policies (continued)

34.4 Liquidity risk

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

	Up to 1 month	1-3 months	3-12 months	Sub-total Up to 1 year	Over 1 year	Total
	KD	KD	KD	KD	KD	KD
31 December 2017						
Financial liabilities						
Due to banks	5,491,683	-	-	5,491,683	-	5,491,683
Accounts payable and other liabilities	312,479	510,879	2,560,331	3,383,689	2,860,553	6,244,242
Due to related parties	-	-	1,230,500	1,230,500	-	1,230,500
Term loans	-	962,325	2,886,975	3,849,300	13,472,550	17,321,850
Murabaha payable	1,004,005	-	1,874,211	2,878,216	2,641,037	5,519,253
Provision for employees' end of service benefits	-	-	-	-	1,175,185	1,175,185
	6,808,167	1,473,204	8,552,017	16,833,388	20,149,325	36,982,713
31 December 2016						
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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

35 Fair value measurement

35.1 Fair value hierarchy

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

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

35 Fair value measurement (continued)

35.2 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. 2017 KD	31 Dec. 2016 KD
Financial assets:		
Loans and receivables at amortised cost:		
Cash and cash equivalents	7,805,543	10,103,929
Installments credit debtors	8,931,619	11,118,653
Accounts receivable and other assets	4,944,621	5,821,949
Due from related parties	191,306	1,104,711
Investments at fair value through profit or loss:		
Investments at fair value through profit or loss	7,905,472	6,814,873
Available for sale investments:		
Available for sale investments – at fair value	74,738,343	61,132,135
Available for sale investments – at cost	11,728,416	37,680,555
Total	116,245,320	133,776,805
Financial liabilities:		
Financial liabilities at amortised cost:		
Due to banks	5,226,027	3,847,752
Accounts payable and other liabilities	6,244,242	7,092,993
Due to related parties	1,230,500	191,888
Term loans	16,380,000	18,730,000
Murabaha payable	5,267,067	8,085,878
Provision for employees' end of service benefits	1,175,185	925,579
Total	35,523,021	38,874,090

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 2017 approximate their fair values.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

35 Fair value measurement (continued)

35.2 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 2017				
Investments at fair value through profit or loss:				
Local quoted shares	881,992	-	-	881,992
Foreign quoted shares	61,013	-	-	61,013
Investment in managed portfolios	6,962,467	-	-	6,962,467
Available for sale investments:				
Local quoted shares	6,133,960	-	-	6,133,960
Local unquoted shares	-	-	12,725,268	12,725,268
Foreign unquoted shares	-	-	24,895,796	24,895,796
Investment in managed portfolios	19,451,917	-	11,338,600	30,790,517
Investment funds	-	192,802	-	192,802
	33,491,349	192,802	48,959,664	82,643,815
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

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

35 Fair value measurement (continued)

35.2 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

35 Fair value measurement (continued)

35.2 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. 2017 KD	31 Dec. 2016 KD
Opening balance	35,457,471	30,616,586
Change in fair value	1,432,992	4,840,885
Sales	(73,413)	-
Purchases	978,379	-
Arising from liquidation and loss of control of subsidiaries	11,164,235	-
Closing balance	48,959,664	35,457,471

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 2017 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 valuers 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

36 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. 2017 KD	31 Dec. 2016 KD
Due to banks (note 22)	5,226,027	3,847,752
Term loans (note 24)	16,380,000	18,730,000
Murabaha payable (note 25)	5,267,067	8,085,878
Less: Cash and cash equivalents (note 12)	(7,805,543)	(10,103,929)
Net debt	19,067,551	20,559,701
Equity	119,090,805	152,735,849
Net debt to equity ratio	16.01%	13.46%

