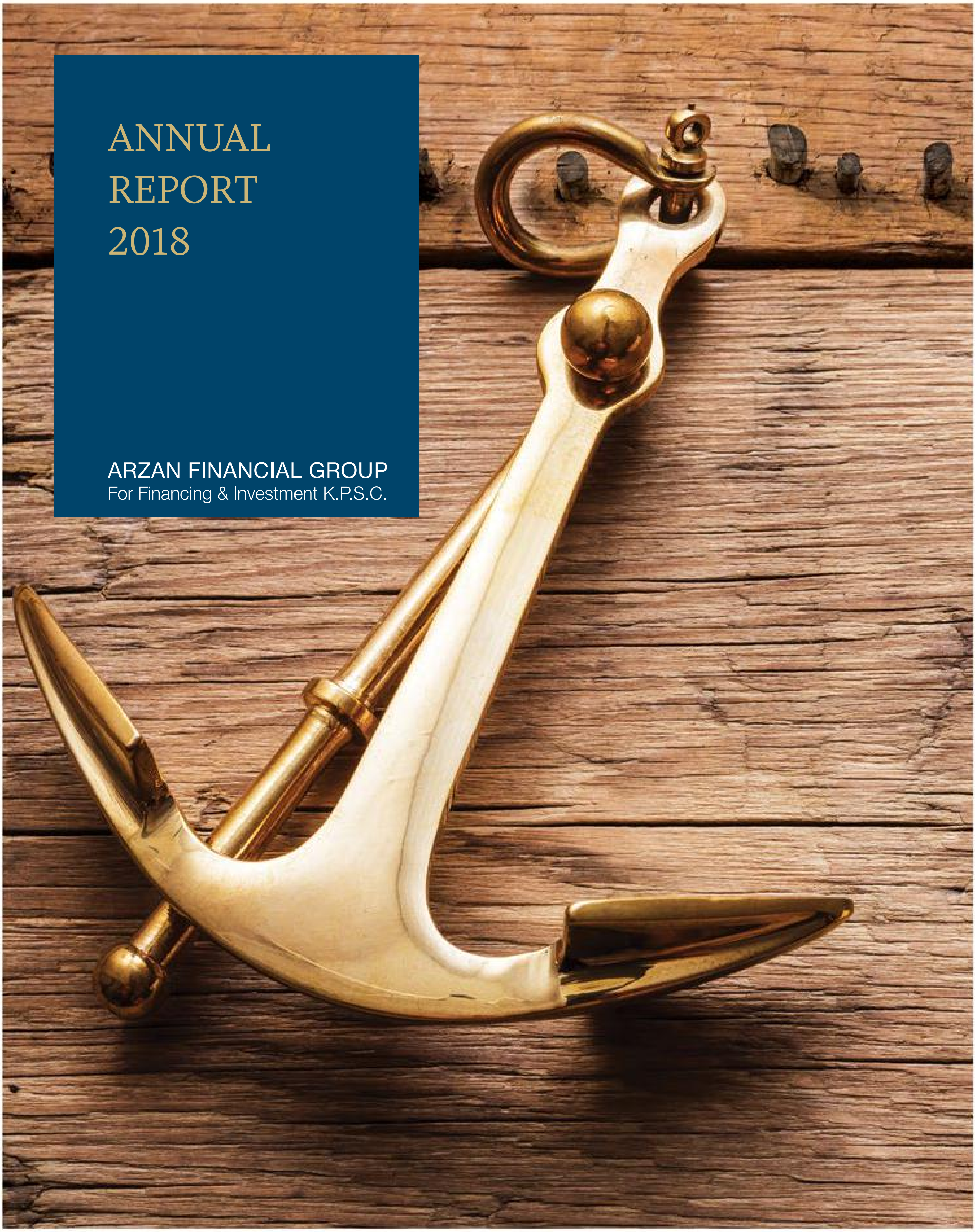
ANNUAL REPORT 2018

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



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

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

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

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

Content

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

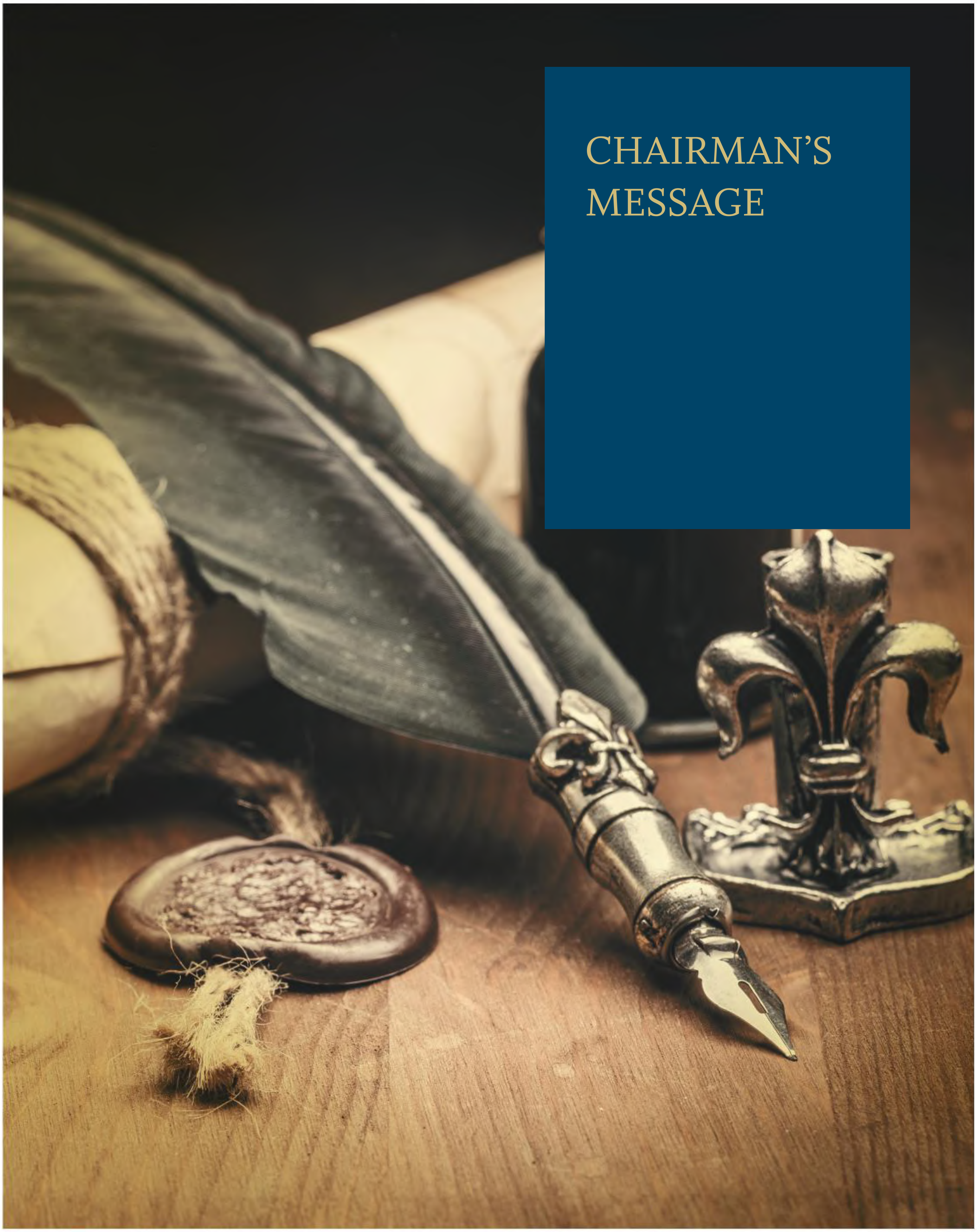
Rami Khaled Ali
Board Member

Ammar Taleb Hajeyah
Board Member

Abdul Hamid Mohammad 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 for 2018 of Arzan Financial Group. The Group continued to implement its strategy designed to achieve a diversification of its sources of income by providing customers with unique products and services. This would qualify the Group soon to strengthen its position among the leading companies in Kuwait and the region and ensure its success in achieving continuous growth and increasing success.

The Middle East and North Africa generally witnessed geopolitical challenges that brought about economic slowdown in the entire region, while oil prices took a downward trend during the fourth quarter of 2018 following an improvement during the first half of the year.

This improvement contributed to the strengthening of the GCC countries budgets and improving their financial conditions. However, they were negatively impacted in the second half of the year by market changes and a drop of oil prices. The state of Kuwait held its position and weathered the turbulence around it, thanks to the oil price adopted by the state in its government budget. As a result, Kuwait maintained its strong credit rating and its Gross Domestic Product grew by 2.9%, while the non-oil product growth rate rose by 2.8%.

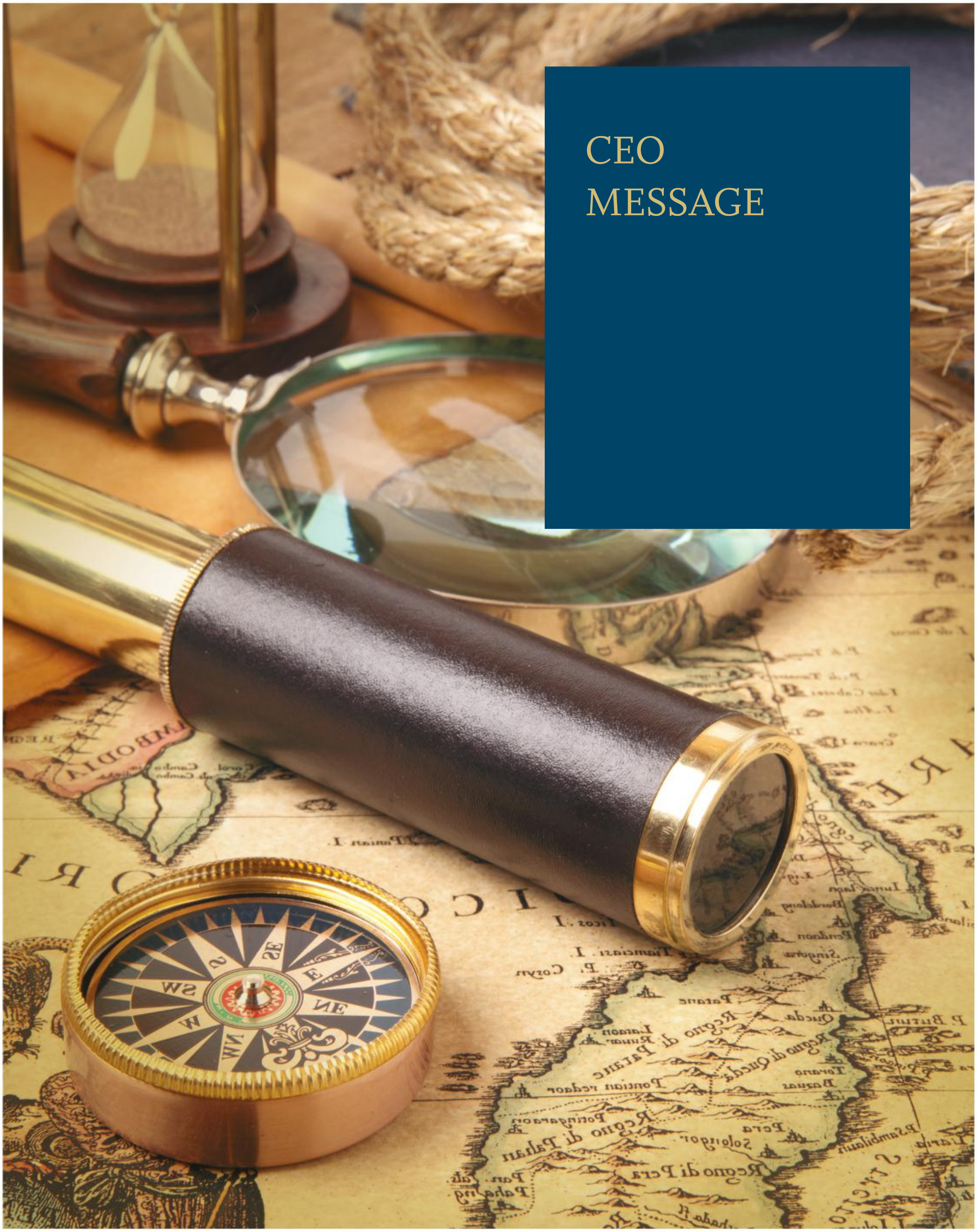
At the global level, the world financial markets suffered a severe shock in the second half of 2018 against the background of political tensions including the trade war between the United States and China, while the Federal Reserve continued to tighten its monetary policy by raising interest rates four times during 2018, which reflected relatively on US securities markets which shed off the gains they had made during the year.

In Europe, the negotiations over United Kingdom leaving the European Union are still going on. The mere possibility of failure to reach a mutually acceptable solution in this regard would have far-reaching economic consequences in terms of the growth of the UK economy and its ability to deal with the other European countries. On the other hand, the economies of the European Union countries may slow down as a result of the political differences between the European union and the member countries, in addition to the protectionist trade policies adopted by the USA.
Regarding the Group's operating environment, the Board of Directors continued to provide its wise guidelines to the executive management on implementing the Group's plans and strategies with a view to achieving the ultimate goals. We have strengthened the Board of Directors charter and the sound corporate governance policy which forms the foundation of the success and sustainability of the companies.

In conclusion, and despite the ongoing challenges faced by the Group, we succeeded in achieving positive results during the year, with operating revenues of 8,657,000 KD for the year ended 31 December 2018 compared to 8,057,642 KD in the previous year. The Group also achieved a net profit of 2,534,000 KD compared to a profit of 1,742,000 KD at the end of 2017

Wafa Al Qatami - Chairman of Board of Directors

CEO MESSAGE



Dear Shareholders,
Over the past years, the executive management made unrelenting efforts to create a prominent financial institution that would occupy a leading position in the finance and investment industry. Our goal has been and continues to be to diversify the Group's sources of income and minimize the risks of economic and geopolitical fluctuations. The executive management looks forward to strengthening the Group's position at the level of our core services, seek to increase growth in the targeted sectors, and ultimately benefit from the investment opportunities in the countries in which we operate.

The Group succeeded in making further achievements during 2018, and brilliantly succeeded through the implementation of its strategy which ended at the end of the year. These achievements will be presented through the reports of the various departments.

Geopolitical factors and oil price fluctuations affected both the financial markets and economic growth in the region throughout 2018. By the end of the year, oil prices had so declined as to wipe out a considerable part of the gains it had made earlier in the year, thereby slowing down the implementation of the region's development plans.

In the fourth quarter of the year, the global financial markets suffered a strong shock when signs of global economy showing signs of slowdown against the backdrop of political tensions particularly the trade war between China and the USA, coupled with a tightening of monetary policy by the Federal Reserve continuing to raise interest rates, causing the financial markets to decline sharply and lead shed the gains they had made during the year.

While the matter and terms of the UK's withdrawal from the European Union remains far from settled with a mutually acceptable solution, the extent of the consequences of failure to reach such agreement may have far-reaching effects on the British economy. Meanwhile, International Monetary Fund reports say that the global economic growth may slow down from 3.7% in 2018 to 3.5% in 2019 as a result of growing risks.

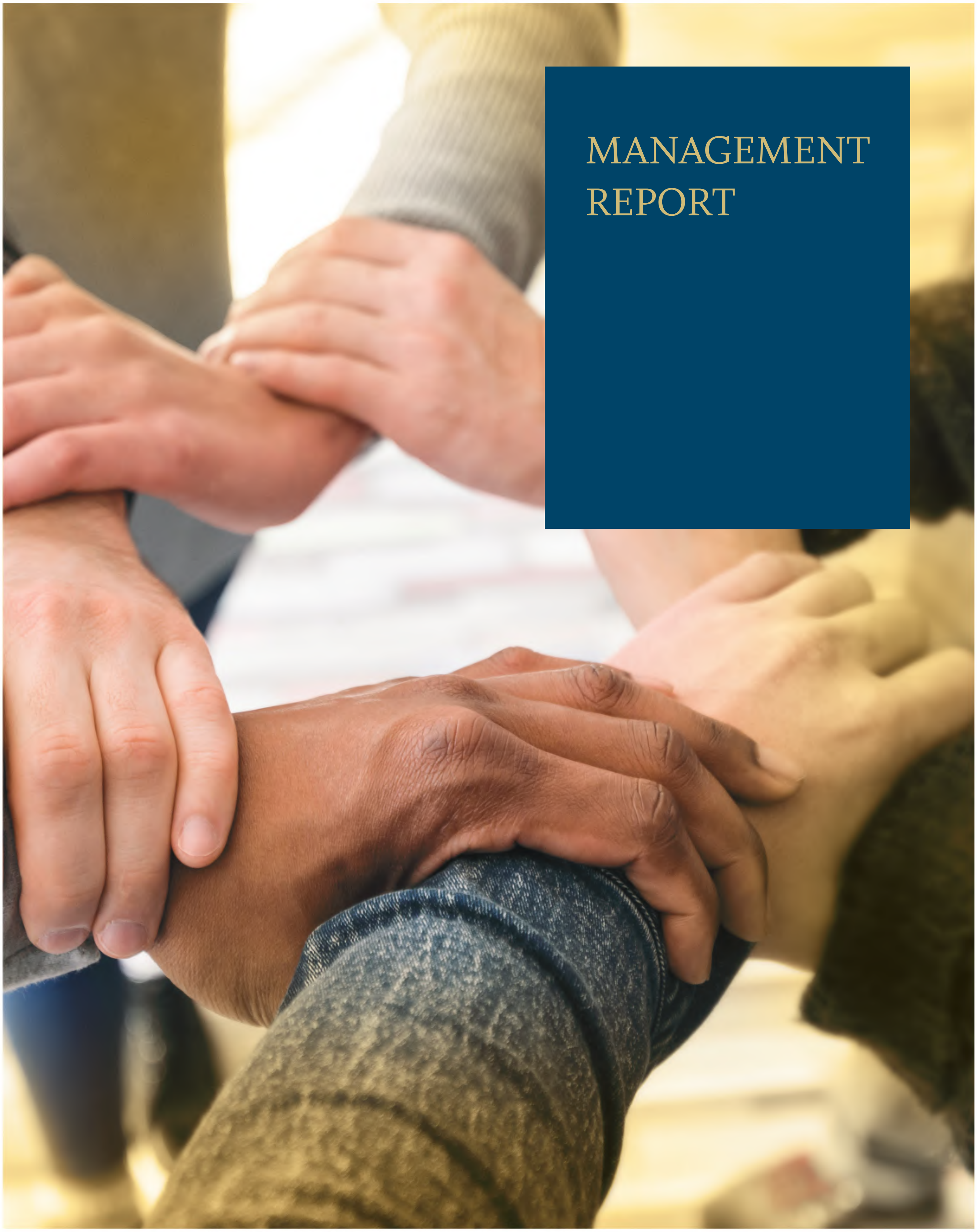
Regarding the local, regional and international operating environment, our main goal for 2019 will be to implement the Group's strategy for the years 2019-2021, continue to closely monitor developments in the regional economies, take the necessary decisions to adjust the course of the strategy according to the changing circumstances in order to attain the goals of the Group and our customers during 2019.

The following are the main pillars of the new strategy:
1- To re-structure the Group to increase Group efficiency and profitability.
2- To expand in the targeted activities and consulting services.
3- To raise the efficiency and quality of the financial and investment services to customers.
4- To achieve sustainability for shareholders' equity and increased profitability.

The Group continued to invest in its most important asset " The employees " , by designing advanced and comprehensive training programs for all sectors of the Group, In order to develop their skills and capabilities, thereby ensuring the quality of their performance. Management underlines the importance of attracting young talents and fresh graduates to join the company and create a work environment that can encourage and inspire ambitious individuals.

The Group will continue to develop its infrastructure in order to keep pace with the best practices in financial and investment services. Management was extending the scope of the electronic technologies and operations used to include all departments. Technological development will remain at the top of our priorities during the coming years in order to enhance the company's position and enable it to continue to occupy a leading position and compete effectively, thereby gaining and keeping customer satisfaction and promoting smooth communications with them.

Jassem Zainal - Chief Executive Officer



MANAGEMENT REPORT

ARZAN WEALTH

Arzan Wealth (DIFC) Limited is a Dubai-based advisory firm regulated by the Dubai Financial Services Authority. In 2018, and as part of an effort to fuel the growth of the business in the long-term, Arzan Wealth became a 100%-owned subsidiary of Arzan Capital (Holding) Limited, a new holding company incorporated in the Dubai International Financial Center (DIFC). Our new parent entity successfully raised fresh capital that will allow it to support the business of Arzan Wealth by underwriting and co-investing in our transactions, alongside our loyal client base.

At the end of 2017 we saw several trends that steered our investment decisions towards the cautious side. Based on that caution, we used 2018 to focus on protecting value in our existing portfolio, to execute four successful exits for our clients, and to transact three new deals in the US, two of which were part of our Real Estate Debt Platform, which was launched in Dec 2017. We believe that our selectivity on new deals, and particular focus on the debt space, will allow us to better meet the safety and income needs of our clients over the coming few years.

Early in 2018, we successfully completed our second REILS transaction, with its unique amortizing mezzanine structure, on a portfolio of multifamily assets in New Orleans, Louisiana, while also pursuing several other REILS transactions that we hope to conclude during 2019. Also under the Real Estate Debt Platform, we closed our first senior lending transaction on a residential development project in Houston, Texas, with a very attractive risk-return profile for clients. Much effort was also expended during 2018 to design and launch a mezzanine lending program for the funding of affordable housing projects in major US cities, with a heavy emphasis on New York. This program, which is expected to start deployment of capital in 2019, will further strengthen Arzan Wealth's credentials in the real estate debt business.

For our Yielding Platform, 2018 was a slow year, and for good reason. The UK and European markets, with significant political headwinds such as Brexit negotiations, several national elections and social uncertainty, did not offer us well-priced assets that fall within our quality and risk guidelines. Therefore, our pursuit of many opportunities in that region did not bear fruit. We continue to consider the UK and Europe as key target markets for the long-term, but we will continue to adopt a highly selective and cautious attitude in the near term.

In the US, Arzan Wealth had started 2018 with higher selectivity on acquisitions, as a result of the continued rise in interest rates, as well as the volatility and unpredictability of the Trump Administration's policy-making agenda. We focused on more defensive sectors and changed the way we source deals in order to mitigate pricing risk. That disciplined approach allowed us to close on the acquisition of a healthcare portfolio in the Oklahoma City in December, a transaction which offers a highly predictable monthly income stream secured by a long-term lease to a high-quality healthcare tenant.

As for our residential refurbishment and development platform in New York City, after a highly successful exit of our first project in 2017, we continued to grow this platform in 2018, where construction is already under way on a second project, and a third project was approved and secured . We continue to see long term value in the residential sector in New York City, and will maintain our efforts there in the future.

Arzan Wealth successfully exited four US assets in 2018. The first exit was a single-tenant office building leased to Lenovo, in Raleigh, North Carolina. We were also able to monetize three out of the six assets in our US SingleTenant Portfolio at favorable returns. We are proud that the nine asset exits we have made since the inception of our business in 2013 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 nine of our exited investments would have achieved an average IRR, net of taxes and fees, of around 15% per annum, which is inclusive of an average monthly yield equal to 8.8% per annum.

Looking forward towards 2019, Arzan Wealth remains cautious and diligent in its approach to new transactions as we analyze the potential impact of various geo-political and macroeconomic trends around the world. As we saw in 2018, global events like the UK Brexit and suffering retail markets must be taken into consideration in our investment decisions during the year, and lower risk should remain our primary focus.

Arzan Wealth remains committed to its mission of providing high quality advisory services to its clients 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 regular income, and to achieve greater diversification in mature global markets.

Muhannad Abulhasan - Chief Executive Officer - Arzan Wealth

ARZAN ASSET MANAGEMENT

At Arzan asset management division we strive to deliver to our clients a customized investments solution 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 2018 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 and the sustainability of the global growth. Our aim is to monitor global and regional Macro environment closely and implement prudent strategies to navigate through 2019 and achieve our client's objectives.

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 2018, the division sustained the implementation of the restructuring and recapitalization plans for IFA Securities Brokerage (Egypt) and IFA Financial Services (Jordan). Going forward we will initiate the rebranding strategy of our subsidiaries in Egypt and Jordan in 2019. Also, we will focus on increasing our client base and improving the subsidiaries profitability margins through higher operating efficiencies.

Talal Al Bahar - Executive Director of Asset Management & Brokerage

ARZAN VENTURE CAPITAL

ArzanVC launched its second fund (AVC II) and is currently in advanced assessments with a handful of potential LP's. Moreover, we have invested in 6 new exciting companies in 2018. Arzan VC has now invested in a total of 23 companies.
Our pre-seed program has witnessed an increasing number of applications (~250 applicants). From this program we invested in 3 early-staged companies and plan to invest additionally.
While Arzan VC's first fund was closed for any new investments in 2017, we continued to support and add value to portfolio companies. Majority of these portfolio companies have raised subsequent rounds; and one company was acquired.
In 2018, we witnessed a higher activity in VC investments and noted an improvement in the quality of startups compared to previous years.

Hasan Zainal - Partner

ARZAN CORPORATE CREDIT

The credit department has been concentrating on corporate clients with a current portfolio of considerable number of clients that are operating in various business industries in Kuwait with concentration on small to medium size enterprises. The strategy is to develop the portfolio on annual basis at a progressive rate with constant focus on potential new clients spread over all economy sectors locally and internationally to increase the portfolio, reduce concentration risk and minimize impact of any delinquent account.

The quality of the loans and customers is very high due to the strict screening measures and approval standards imposed by the credit policy and the Management Credit Committee. Such measures include the trend analysis of the audited financial statements, screening of bank statements, evaluating management expertise, and the nature of business.

The credit department strives to establish a close relationship with its clients to mitigate risks as well as to assist in developing their business as actual partners by providing applicable advices and recommendations that are important to their stability and growth. No mass publications or media is carried out as we are very selective in building the credit base at this level.
The credit department is responsible for submitting monthly performance reports related to target, income, collaterals evaluation, and clients' commitment as well as clients under screening.

ARZAN COLLECTION

In 2018, Arzan Collection Co. Kuwaiti (S.P.) company was obtain new contracts with a several distinguished companies in Kuwait to provide them with all collection services. Arzan Collections Company is one of the group companies which provides all types of collections and follow-up services in a friendly way and legal way for Arzan Finance Group portfolio and other companies and banks in the Kuwaiti market. Arzan Collections 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 estate, retailers and insurance.

INSTALLMENT SALES SERVICE

The company expanded its range of services by introducing a new installment sales service called EasyBuy via one of our subsidiaries Al Adan Real Estate Company. EasyBuy is an installment sales service that facilitates customers shopping experience to own consumer durable goods with flexible payments focusing on clients who require business friendly services and quick turnaround times. EasyBuy service was launched with one branch in 2017 and it expanded to ten branches throughout 2018.

EasyBuy highlights a new segment in the market that would diversify the group services portfolio and offer a competitive edge compared to existing local installment sales providers currently in the market.

Our goal is to improve the installment sales industry in the Kuwaiti market. EasyBuy focusses on customer satisfaction by offering competitive pricing, simplified installment plans, and less requirements.

MARKETING

In 2018, Arzan Financial Group continued the success and leadership in the market through the strategies and plans aimed primarily at protecting the wealth of its clients and investors, enhancing their confidence and satisfying all their needs by providing all types of financial services and financial solutions.

Marketing and Public Relations Department succeeded in promoting the brand of the Group and enhancing AFG image internally and externally through AFG websites, social networks projects , press conferences, press releases, and the participations in community service and social responsibilities.

Marketing and Public Relations activities are key factor of successful expansion of Arzan Financial Group.
These important factors enable us to increase our business and strengthen our position in the community and in our clients minds.

In addition, Arzan Financial Group provided a great appearance in CSR participations and actively involved with many charitable societies CSR projects in 2018.

Fawaz Almunaya - Marketing & PR Supervisor

INFORMATION TECHNOLOGY

In 2018, Information Technology (IT) department kept their focus on aligning and improving the core business needs with Arzan Financial Group's strategy. IT department, developed well-defined practice for conducting enterprise analysis, design, planning, and implementation, using a comprehensive approach for the successful development and execution of strategy in the areas of Software, hardware, Network and information security to meet the organization needs.

Upon completion of T24 Implementation and Insight data warehouse, AFG business and IT department ensured the organization's objectives are met. Post implementation activity carried out to ensure the system functionality is verified and functioning as per design. We have centralized data storage system that allows the business to integrate data from multiple applications and sources in one location with the Business Intelligence tool. IT Department is enhancing the system by developing business & regulatory reports to meet the business needs. In 2019, AFG will sign the project to upgrade Temenos Core banking solution to the newest version R19.

In align with organization strategy, we are highly focused on implementing paperless environment to automate all the processes and requests. The main objective is to increase the Productivity, collaborate and ease the manual Process. AFG is proud to announce that we met the objective of Phase I successfully and went live for general requests across the organization including Arzan subsidiaries and extended ourselves to the second phase of the project .We believe a project is successful upon its utilization, and the team is dedicated to strive towards the Mission, Vision & Values of the Organization.

Information Technology department conducted multiple awareness sessions focused on raising consciousness & maximizing the participation to build confidence among the organization in adapting towards existing technology and understand the importance of utilization. The main objective is to extend their support towards new initiatives and be aware of technological enhancements. This interaction has increased the relationship between the departments, and in the upcoming years, we believe it will have a huge improvement on organizational culture.

AFG strategy considers information security to the highest level. In 2018, IT team initiated GDPR (EU) project to manage Personally Identifiable Information (PII). The main objective is to follow the principles of GDPR i.e. Maintain Lawfulness & transparent, purpose limitation, Data Minimization, Accuracy, Integrity & confidentiality and to establish accountability. The team has completed Data Protection Impact Assessments (DPIAs), identified the current state where we stand, and where we want to be the desired state & milestones set in phases to increase the maturity level over the period.

ADMINISTRATION

In 2018, administration department focused on providing all services and fulfilling all other departments' and subsidiary's needs. Administration department have three main functions, which are governmental services, general services, and general registration.
Administration department have renewed all the licenses of Arzan Finance Group. It also established a new company in the name of Blender Company for renting and leasing of land and real estate, in order to be in line with the groups' vision and objectives. In 2018, Admin department supported and provided the Group and its subsidiaries with all necessary documents to carry out their activities as soon as possible. Therefore, administration department have been keen to develop their employees by providing training courses in different fields that will increase the efficiency and capabilities of the employees to ensure their readiness and preparation to manage their duties, which will help in achieving top management vision and objectives.

In the field of general services, general registration, and documents archiving, the department has developed a new electronic archiving system and created a well-prepared store equipped with high technology in order to preserve the company's documents and customers' information to keep them safely in high confidential environment.

Furthermore, admin department applied the strategy of conserving company's assets and properties. It was applied thru daily maintenance and installation of new surveillance cameras in line with the requirement of the Ministry of Interior to maintain the security of the property and the safety of its employees.

Ahmad AL Homaid - IT & Admin Manager

HUMAN RESOURCES

In the year 2018, 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 & accountability, talent management and training, compensation and employee benefits. We developed the annual plan for the year defining the criteria for every position and to attract high performing individuals with specialized skills and talents. Our strategies focus on retaining excellent employees and to help them develop professionally by providing exceptional growth opportunities.

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 and we offer competitive compensation and benefits package to ensure employee satisfaction.

At Arzan, we attract, develop and retain a highly talented and motivated workforce to foster a healthy and productive work environment for employees in order to position Arzan as an employer of choice. Our employees are supported to take up Professional certifications and also identify ways in which the company can be improved or the working conditions can be enhanced. 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 is a part of the strategic management 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. Risk appetite 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 doesn't participate in group, lending or investment activity decisions. The independence of the risk function is consistently monitored by Board Risk Management Committee 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 2018, Arzan has taken a number of initiatives in order to enhance risk management by imparting different training courses to AFG staff. And also implemented a strong risk culture and are committed to maintain 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 high 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 2018 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 group decisions are always better than individual decisions.

In addition to determine 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 2018 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 2018.

- 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. 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 required management attention. The Residual Risk Register is being used for monitoring the risk strategies (acceptance, avoidance, transfer or reduction) and risk migration on a periodic basis.

Risk Management has also started the process of collecting and analysing Key Risk Indicators (KRIs) and there was an update on operational risk incidents.

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 2018, 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 2018, we have imparted AML training to 42 employees in addition to the Board of Directors 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 2018, the Arzan Financial Group achieved profits of KD 2.534 million compared to profits of KD 1.742 million which is a 45% increase from the previous year.

The company has achieved operating revenues in the amount of KD 8.657 million as compared to 8.057 million KD, with an increase equivalent to 7%. The reason for the increase is due to the followings:

1. Increase in change in fair value of financial assets at fair value through profit or loss.
2. Increase in interest income.
3. Increase in dividend income.

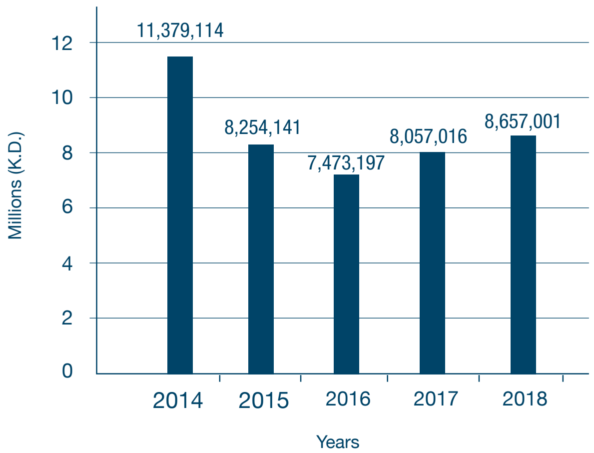
Expenses and other charges also amounted to KD 6.333 compared to KD 6.835 million, with a decrease of 7%, And the reasons for this decrease is due to reversal provision for instalment credit debtors.

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

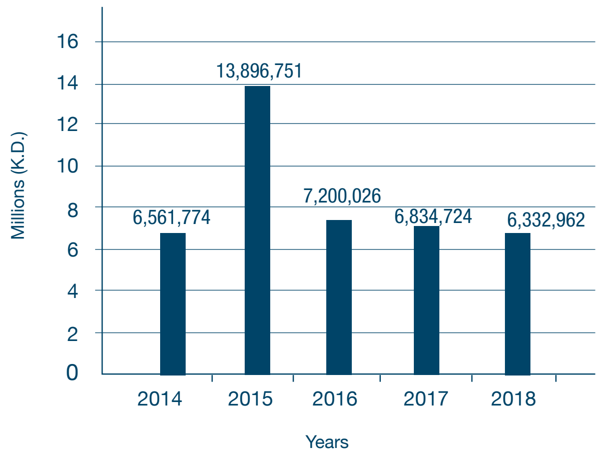
Mohammed Farid - Finance Director

FINANCIAL REPORT ANALYSIS

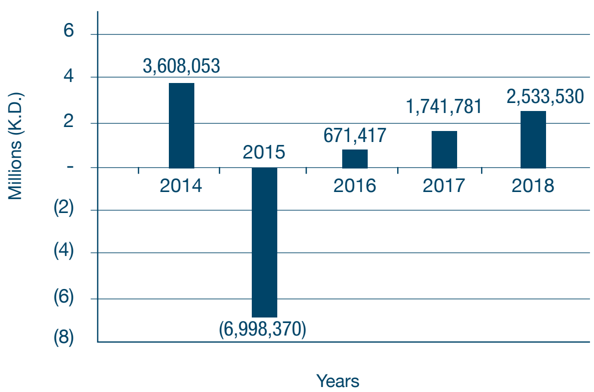
Total Income



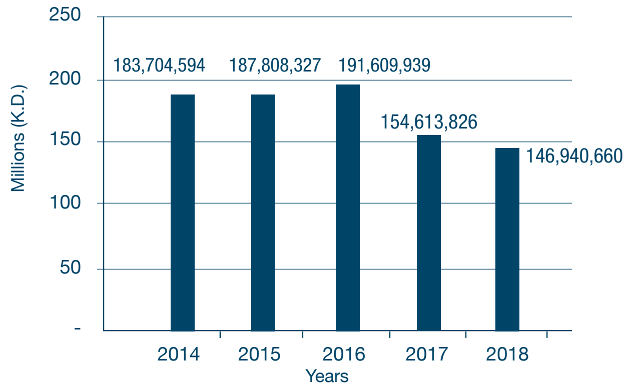
Total Expenses



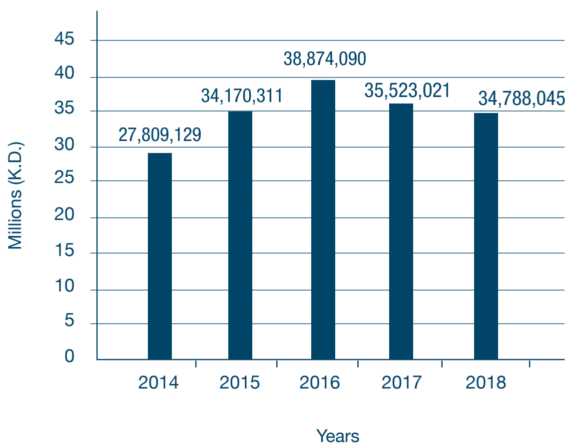
Net Income attributable to the parent company



Assets

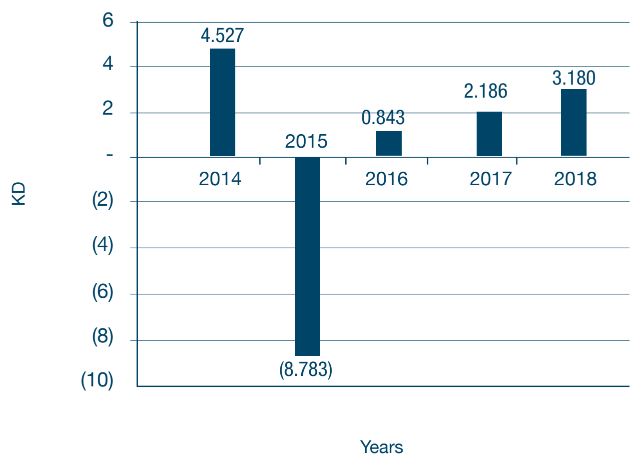


Total Liabilities

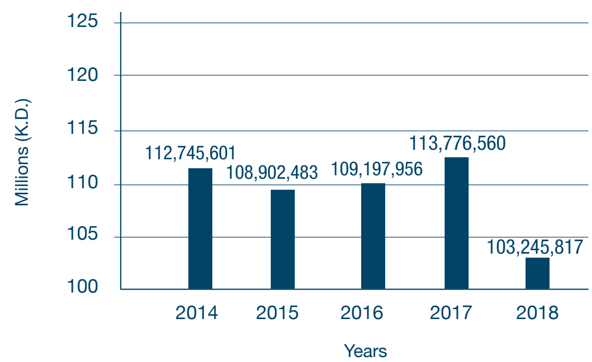


FINANCIAL REPORT ANALYSIS

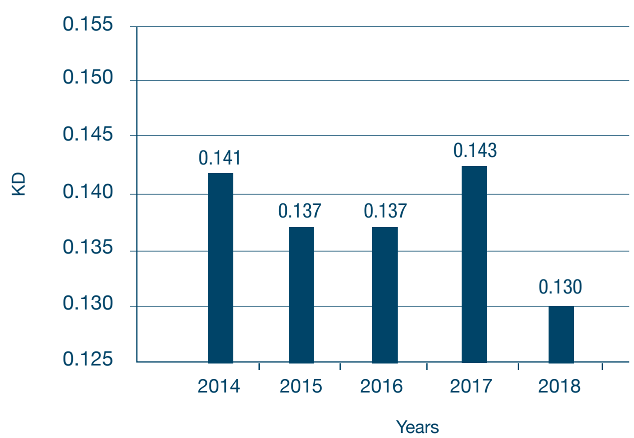
Earnings per Share



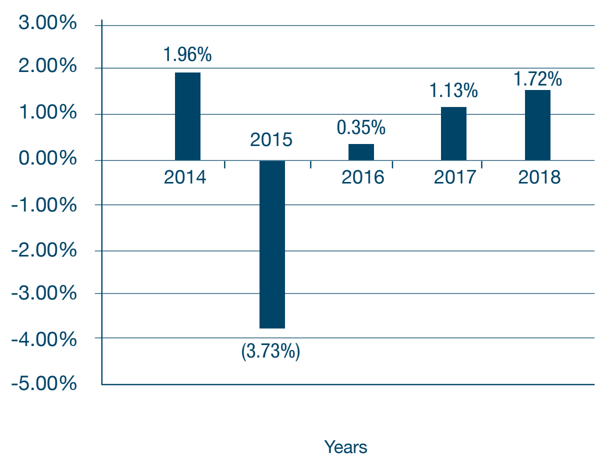
Shareholders' equity attributable to parent company



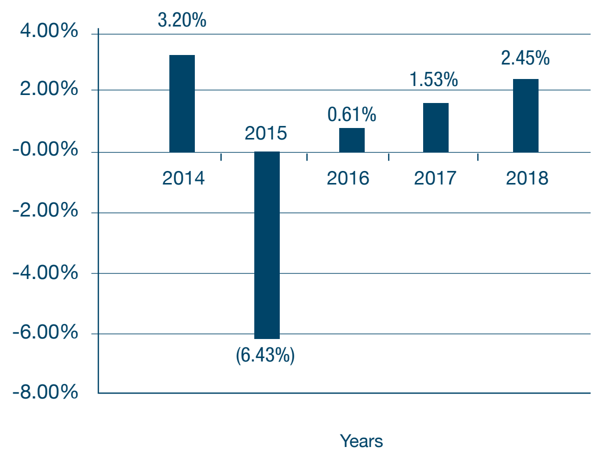
Book Value

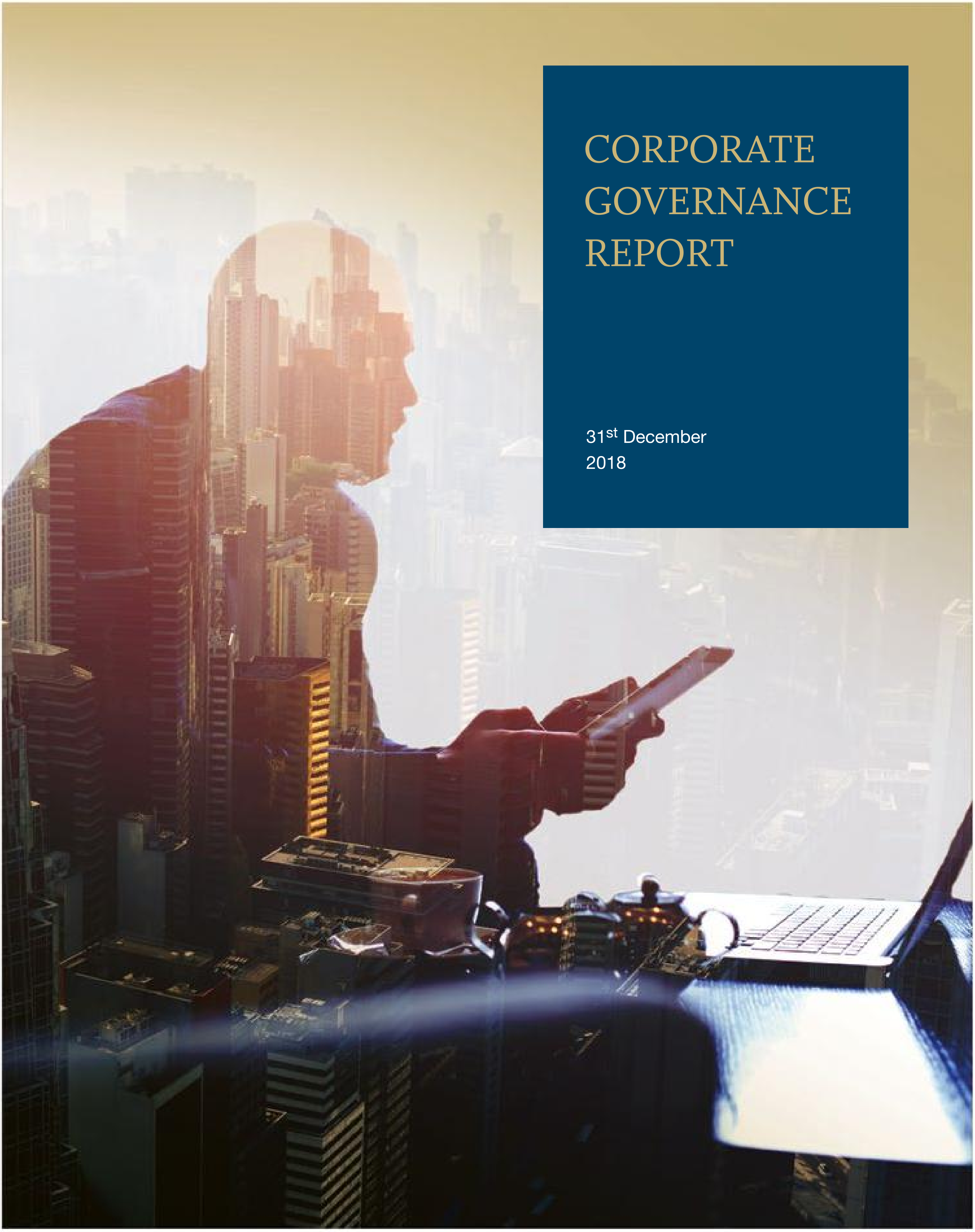


Return on Assets



Return on Equity





CORPORATE GOVERNANCE REPORT

31st December
2018

ARZAN
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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 Financial Group 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 (Executive, Non Executive, Independent, Secretary)	Qualifications and Practical Expertise	Election Date
Wafa Ahmed Al Qatami	Board Chairman, representing Al-Rana Trading Company (Non-Executive Member)	• Political Science and General Management, AUC of Beirut 1973, Lebanon • Experience of 41 years in banking, investment, real estate and financial institutions.	19 July 2017
Jassem Hassan Zainal	Board Vice Chairman and Chief Executive Officer Representative of Dhahiat Al-Sura Real Estate Company (Executive Member)	• 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. • 35 years of experience in banking, investment and financial institutions	19 July 2017
Ibrahim Saleh Al-Dhorban	Board Member Representative of Manara Horizon Real Estate Company (Non-Executive Member)	• Bachelor of Commerce - Accounting, Kuwait University (1975), State of Kuwait. • 41 years of experience in banking, investment, real estate and financial institutions.	19 July 2017
Emad Abdullah Al-Issa	Board Member Representative of Kivan International (Non-Executive Member)	• Bachelor of Science - Business Administration, Polytechnic University (1986), Pomona, California, USA. • MA of Business Administration - Accounting, George Washington University (2004), Washington DC, USA. • 31 years of experience in investment, real estate and financial institutions.	19 July 2017
Rami Khaled Abdullah	Board Member Representative of Asjad Kuwait (Non-Executive Member)	• 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 Administrative Accountant - CMA, (2001), USA. • 21 years of experience in auditing, consulting, investment, real estate and financial institutions.	19 July 2017
Ammar Talib Hajeyah	Independent Member	• Bachelor of Business Administration - Finance, Kuwait University (2004), Kuwait. • MA in of Strategic Management, Maastricht Business School - Kuwait (2008), State of Kuwait. • 16 years of experience in investment, real estate and financial institutions.	19 July 2017
Abdelhamid Mohamed Mehrez	Independent Member	• 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. • 16 years of experience in investment, real estate and financial institutions.	19 July 2017
Ruba Ghanem	Secretary	• Bachelor of Business Administration - Banking, Granttown University 2014, USA. • 19 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. Meetings 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 2018, as follows:

Member's Name	Meeting # (01/2018) on 31/01/2018	Meeting # (02/2018) on 27/02/2018	Meeting # (03/2018) on 29/03/2018	Meeting # (04/2018) on 15/05/2018	Meeting # (05/2018) on 30/07/2018	Meeting # (06/2018) on 31/10/2018	Meeting # (07/2018) on 20/12/2018	Number of Meetings
Wafa Al Qatami	√	√	√	×	√	×	√	**5**
Jassem Hassan Zainal	√	√	√	√	√	√	√	**7**
Ibrahim Al-Dhorban	×	×	×	×	√	√	×	**3**
Abdel Hamid Mehrez	√	√	√	√	√	√	×	**6**
Emad Abdullah Al-Issa	√	×	×	√	×	×	×	**2**
Rami Khaled Abdullah	√	√	√	√	√	√	√	**7**
Ammar Taleb Hajeyah	×	√	√	√	√	√	√	**6**

Record, coordinate and safekeeping minutes of meetings of the Board of Directors

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.

RULE TWO / PROPER IDENTIFICATION OF TASKS AND RESPONSIBILITIES

Policies of the Functions, Duties and Responsibilities of the Board of Directors & Executive Management and the delegations of authorities:

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.

The Board also determine and monitor the functions and responsibilities of the executive management and determine delegations of authorities to the executive management. Such delegations shall be reviewed to ensure its adequacy.

Achievements of the Board of Directors during 2018:

Some of the most prominent actions undertaken by the Board during 2018 include, but not limited to, the following:

- Supervising the monitoring and review of the performance of the Board of Directors and the Executive Management.
- Ratify Arzan's financing and borrowing requirements.
- Ratify the annual and interim budget and ensure that performance is measured in accordance with the budget and work plans.
- Consideration of annual financial statements, interim lists, dividend declarations and notices to shareholders in accordance with the recommendation of the Board Audit Committee and its appropriations.
- Ensure risk management systems, internal controls and financial and operational systems.
- Adoption of the company's modern internal policies and procedures, including: record keeping and archiving, SWIFT, efficiency and integrity, FATCA, common reporting standard.
- Review and amend the existing internal policies and procedures of the company including: Business Continuity Plan, Disaster Response and IT Emergency, Charter of the Nomination and Remuneration Committee, Asset Management, Investment Advisory Services, Securities Broker, Social Responsibility, Human Resources, Department of Management, Board of Directors and Council Committees, Powers and Responsibilities, Credit Committee, Appropriations Committee, Marketing Department, Charter of the Board Risk Committee, SME Financing.
- Ensuring the company's compliance with policies and procedures that ensure that the company respects the shareholders' rights for the activities and internal regulations in force and the company's commitment to implementing the governance system.
- Review, amend and approve the company's organizational structure.
- Review and approve the company's overall strategy for the three years 2019-2021, the work plan.
- Adoption of annual estimated budgets.

- Monitor the performance of each member of the board of directors and executive management in accordance with KPI's
- Approval of the appointment of candidates for executive positions.
- Adoption of annual / semi-annual reports sent to government / regulatory authorities.
- Adoption of reports to the General Assembly.

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 I 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. Reviewing and discussing the interim and final financial statements before submitting them to the Board of Directors and expressing their opinion thereon as of 31/12/2017, 31/3/2018, 30/6/2018, 30/9/2018 and studying the observations made by the external auditors on the financial statements.
2. Review the Audit of the Internal Control Systems evaluation report for the year ended 31/12/2017.
3. Recommend to the Governing Council the appointment/reappointment of external auditors
4. Adoption of the report of the Audit Committee for the financial year ended on 31/12/2017 and recommendation to the Governing Council.
5. Review the results of the internal audit reports and ensure that corrective action is taken on them.
6. Review and approve the annual audit management workplans.

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-Dhorban - Chairman of the Committee (Non-Executive Member, Non-Independent)
- Ammar Hajeyah - Independent Member (Non-Executive Member)
- Emad Al-Issa – Member of The Committee (Non-Executive, Non-Independent)

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

Member's Name	Meeting # (01/2018) on 29/03/2017	Meeting # (02/2018) on 15/05/2018	Meeting # (03/2018) on 30/07/2018	Meeting # (04/2018) on 31/10/2018	Number of Meetings
Ibrahim Al-Dhorban (Chairman of the Committee)	√	×	√	√	**3**
Emad Abdullah Al-Issa (Member of The Committee)	×	√	×	×	**1**
Ammar Taleb Hajeyah (Independent Member)	√	√	√	√	**4**
External Auditor	√	√	√	√	**4**
Internal Auditor	√	√	√	√	**4**

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 2018:

1. Review the periodic reports on the nature of risks to which the Company is exposed and submitting them to the Board of Directors.
2. Review the organizational structure of the Company and develop recommendations and submit them to the Board of directors for approval.
3. Review the risk management strategy for the next three years 2019-2021 and submit it to the Board of directors for approval.
4. Review and approve annual risk management workplans.
5. Review the issues raised by the Audit Committee on risk Management.
6. Review the auditor's report on the CRS common reporting Standard and submit it to the Board of directors for approval.
7. Review the external Penetration test report.
8. Review the discussion of the auditor's report on FATCA and submit it to the Board of directors for approval.

9. Reviewing current policies and procedures including: Business continuity plan, disaster response and information technology emergency, Charter of the Committee on nominations and rewards, asset Management, investment consultancy services, securities broker, social responsibility, powers and responsibilities, committee Credit, Allocation Committee, work charter of the Board of Directors of risk, financing of small and medium-sized enterprises.
10. Review of recent policies and procedures, including: record-keeping and archiving, financial transfers between banks, “Swift”, Efficiency and integrity, FATCA, common reporting standard, training of board members.

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-Dhorban – Committee Chairman (Non-Executive, Non-Independent)
- Jassem Hassan Zainal - Committee Vice Chairman (Executive Member, Non-Independent)
- Abdel Hamid Mehrez – Committee Member (Non-Executive Member, Independent)

Risk Management Committee has convened 6 meetings, as follows:

Member’s Name	Meeting # (01/2018) on 31/01/2018	Meeting # (02/2018) on 27/02/2018	Meeting # (03/2018) on 15/05/2018	Meeting # (04/2018) on 29/07/2018	Meeting # (05/2018) on 31/10/2018	Meeting # (06/2018) on 20/12/2018	Number of Meetings
Ibrahim Al-Dhorban (Chairman of the Committee)	×	×	×	√	√	√	**3**
Jassem Hassan Zainal - Committee Vice Chairman	√	√	√	√	√	√	**6**
Abdel Hamid Mehrez – Committee Member	√	√	√	√	√	×	**5**

Nomination and Remuneration Committee:

This committee shall assume the responsibilities related to the fees 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. Adoption of the annual remuneration, remuneration and benefits report for the members of the Board of Directors and the Executive Board for the financial year ended 31 December 2017, and the recommendation on the Board of Directors’ proposed remuneration for approval.
2. Study and review the applications of candidates for executive positions and raise the recommendation to the Board of Directors
3. Adoption of the self-evaluation of the members of the Board of Directors and the Committees of the year 2017.

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 of the Committee (Non-Executive Member, Non-Independent)
- Jassim Hassan Zainal - Committee Vice Chairman (Executive Member, Non-Independent)
- Rami Ali – Committee Member (Non-Executive Member, Non-Independant)
- Abdel Hamid Mehrez – Committee Member (Independent Member, Non-Executive)

The Nomination and Remuneration Committee has convened twice during 2018, as follows:

Member's Name	Meeting # (1/2018) on 29/03/2018	Meeting # (2/2018) on 20/12/2018	Number of Meetings
Wafa Al Qatami (Chairman)	√	√	**2**
Jassim Hassan Zainal (Vice Chairman)	√	√	**2**
Rami Khaled Abdullah (Non-Executive Member)	√	√	**2**
Abdel Hamid Mehrez (Independent Member)	-	√	**1**

Access to data and information mechanism:

The Board has appointed a secretary of the Board from among the employees of the company and determine its functions in accordance with the rules of corporate governance in line with the responsibilities entrusted to it. The Secretary shall ensure accurate access of members of the Board to information, data, documents and records relating to the Company in time.

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 Boar non-executive Board members, with independent member. The Board has determined the term of office of the Committee and its modus operandi, in addition to its terms of reference and responsibilities, within its code of work as adopted by the Board. 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.

Composition requirements of the Audit Committee:

The Audit Committee consist of three members, including an independent member. The Board takes into account, when forming the Committee, that the Chairman of the Board of Directors or the Executive Members shall not be members of the Committee. The Committee also includes members with academic qualifications and / or practical experience in the fields of accounting and finance.

The conflict between the recommendations of the Audit Committee and the Board of Directors resolutions:

During the financial year ended 31/12/2018, there is no conflict between the recommendations of the Audit Committee and the Board of Directors.

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 je 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 Grand Thornton - Al Qatami & Al Aiban Group Auditor has been reappointed for the current year ended 31/12/2018 by a resolution issued by the Ordinary General Assembly held on 13/05/2018.

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

Risk Management:

The company organizational structure approved by the Board of Directors have a Risk Management department, which is independence, affiliated to the risk committee and, accordingly, to the Board of Directors.

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 Markets Authority.

Composition requirements of the Risk Management Committee:

The Risk Management Committee consist of three members. The Board takes into account, when forming the Committee, that the Chairman of the Board of Directors shall not be members of the Committee and the Chairman of the Committee shall be not an executive member.

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 company organizational structure approved by the Board of Directors have an Internal Audit department, which enjoy full technical independence, affiliated to the audit committee and, accordingly, to the Board of Directors.

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.

RULE SIX / PROMOTING PROFESSIONAL CONDUCT AND MORAL VALUES

Standards and determinants of professional conduct and ethics

Arzan adopts a Code of Professional 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 Markets Authority, Kuwait Stock Exchange and to the stakeholders.

Disclosure of Board of Directors and Executive Management

The Company has a special record that regulates the disclosures by the Board and Executive Management embers. 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.

Information Technology:

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.

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 Clearing Agent that is maintain the Register

Kuwait Clearing Company
POB: 22077
Safat 13081
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 Board of Directors, executive management and 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 established approved policies and procedures from the Board of Directors through which a formal process of reviewing the annual performance of the Board of Directors and its committees is carried out, and the effectiveness of their performance and their contribution to the management of Arzan Finance Group.

The purpose of the performance appraisal process is to have a formal, structured and coordinated way of evaluating the performance of the Board and its committees to take steps to improve the performance of the Board. This process will also benefit from the Board's recommendations to shareholders in the 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 reviews the performance assessment of the board of Directors and the Committees and submits a short annual report to the Board of Directors on its recommendations.

An overview of the Board of Director's efforts in asserting the importance of corporate value creation:

The Board of Director's exercise a lot of effort with the employees at the company to help aid the achievement of the company's strategic goals, and to improve the key performance indicators. The Board of Directors also believe in the great importance of annual training of all staff to increase their efficiency and overall skills.

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 1st meeting, held on 24/12/2017 and was presented to the Board of Directors on its first meeting on the 31st of January 2018.

The programs and mechanisms that help to highlight the company's efforts:

The Arzan Group uses social networking and its main website to its advantage, allowing it to demonstrate its efforts on a large scale. Arzan is also highly active in the use of local newspapers and magazines to achieve this goal as well.

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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, 2019

Dear Sirs,

Internal Control Review

In accordance with our letter of engagement dated 4 December 2018, we have examined and reviewed the internal controls systems of Arzan Financial Group KP.S.C for the year ended 31 December 2018.

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 company, 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 2018, 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 2018, 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, 2019

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

a) the consolidated financial position as at 31 December 2018,
b) the related consolidated statement of income,
c) consolidated statement of other comprehensive income,
d) consolidated statement of changes in equity and
e) consolidated statement of cash flows

for the year then ended, and notes to consolidated financial statements, including a summary of significant accounting policies present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, 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, 2019

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

a) the consolidated financial position as at 31 December 2018,
b) the related consolidated statement of income,
c) consolidated statement of other comprehensive income,
d) consolidated statement of changes in equity and
e) consolidated statement of cash flows

for the year then ended, and notes to consolidated financial statements, including a summary of significant accounting policies present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, 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
Finance Director

REMUNERATION REPORT

For the year ending
on 31 December 2018

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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 2018

Number	Statement	Medical insurance	Business trips	Annual remunerations	Sitting fees allownce for members of the Board of Directors and the Committees	Total
7	Chairman and members of the Board of Directors	415		42,000	22,200	64,615

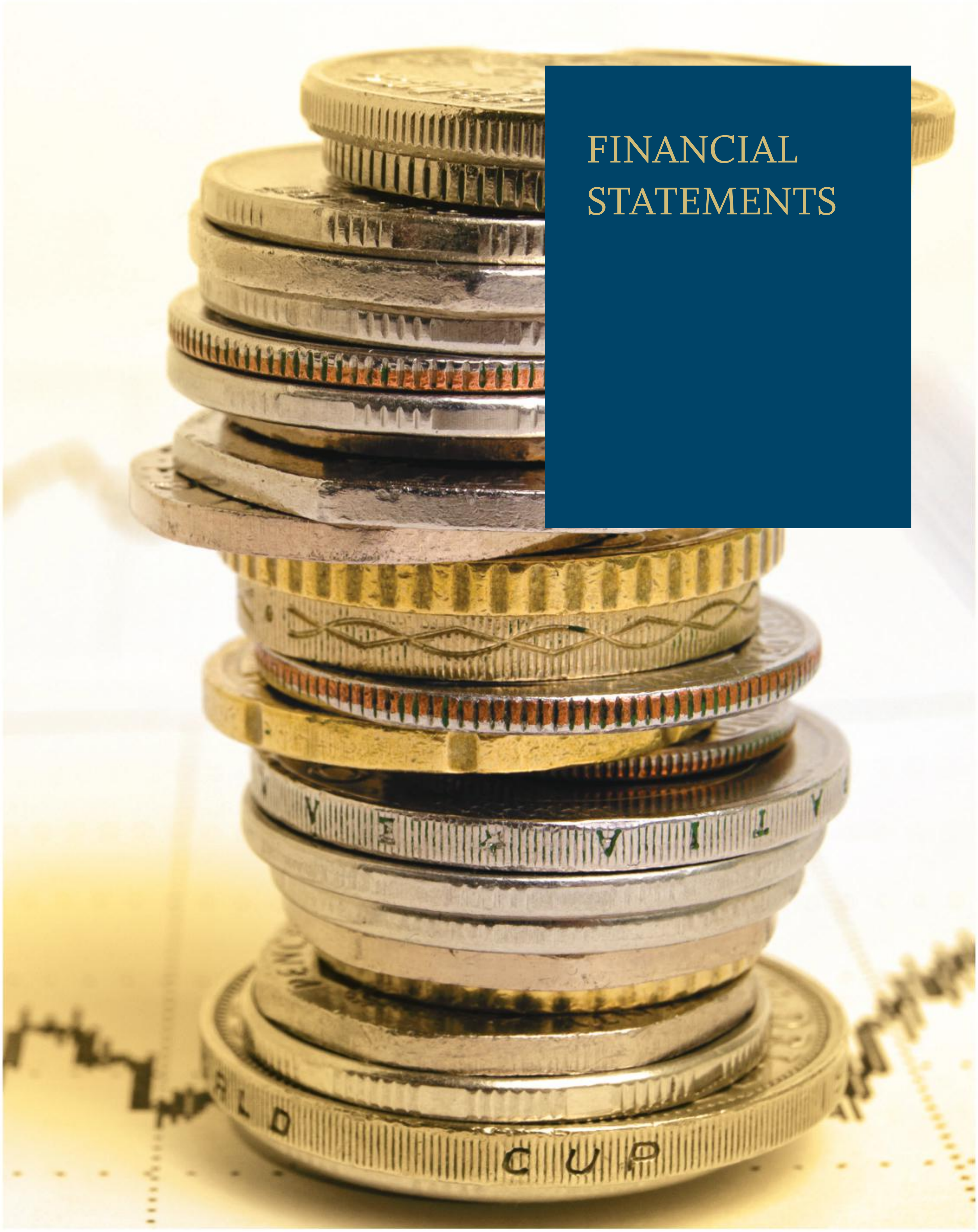
Third: The values of the remuneration and other benefits to the senior management of the company

Number	Statement	Annual salaries	Social insurances	Life insurance	Medical insurance	Air Tickets	Accrued leave	Business trips	End of Service allowance	Annual remunerations	ESS	Business calls	Total
5	Executive Management	311,553	10,058	5,100	6,070	11,898	39,048	11,141	52,681	210,437	23,160	2,618	683,764

Fourth: Statement of fundamental deviations from the policy of Remuneration

Not Available

Head of Nomination Committee



FINANCIAL STATEMENTS

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Content

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Al-Qatami, Al-Aiban & Partners

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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 2018, 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 2018, 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.

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

Key Audit Matters (continued)

Valuation of financial assets at FVTPL and FVTOCI

The Group's financial assets at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVTOCI) 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 financial assets at FVTPL and FVTOCI are included in Notes 14, 17 and 35.2 to the consolidated financial statements.

Our audit procedures included agreeing carrying value of the unquoted securities 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 which are accounted 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 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 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 2018 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2018 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.

Independent Auditor's 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 (continued)
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.

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the 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 2018 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 2018 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 2018 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
24 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 KD	2017 KD
Continuing Operations			
Income			
Income from instalment credit debtors	7	**1,695,184**	1,665,992
Revenue from contracts with customers	8	**1,656,324**	2,425,871
Rental income		**153,437**	148,786
Interest income		**1,027,704**	709,065
Gain on sale of financial assets at fair value through profit or loss		**391,004**	299,287
Change in fair value of financial assets at fair value through profit or loss		**953,926**	215,465
Loss on sale of available for sale investments		**-**	(48,214)
Gain on liquidation of subsidiaries		**-**	76,216
Loss on deemed disposal of subsidiaries		**-**	(46,909)
Share of results of associates	18	**206,489**	477,402
Dividend income	11	**2,255,153**	1,966,989
(Loss)/gain on sale of properties held for trading		**(18,119)**	17,440
Reversal of provision for properties held for trading	16	**65,156**	120,561
Loss on foreign currency exchange		**(28,446)**	(252,520)
Other income		**299,189**	281,585
		8,657,001	8,057,016
Expenses and other charges			
Staff costs		**(2,649,208)**	(2,516,143)
General and administrative expenses		**(1,624,024)**	(1,522,914)
Finance costs	9	**(1,580,541)**	(1,712,668)
Depreciation		**(418,828)**	(446,896)
Reversal/(provision) for instalment credit debtors	13	**216,111**	(475,148)
Impairment of available for sale investments		**-**	(77,105)
Impairment of investment in real estate under development	19	**(67,080)**	(83,850)
Provision for doubtful debts	15	**(209,392)**	-
		(6,332,962)	(6,834,724)
Profit for the year from continuing operations		**2,324,039**	1,222,292
Profit for the year from discontinued operations		**-**	963,725
Profit for the year before provisions for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST)		**2,324,039**	2,186,017
Provision for KFAS		**(6,746)**	(587)
Provision for NLST		**(30,529)**	(34,160)
Profit for the year		**2,286,764**	2,151,270
Attributable to:			
Shareholders of the Parent Company		**2,533,530**	1,741,781
Non-controlling interests		**(246,766)**	409,489
Profit for the year		**2,286,764**	2,151,270
Basic and diluted earnings per share attributable to the shareholders of the Parent Company (Fils)			
- From continuing operations		**3.180**	2.128
- From discontinued operations		**-**	0.058
Basic and diluted earnings per share attributable to the shareholders of the Parent Company (Fils)	10	**3.180**	2.186

The notes set out on pages 12 to 67 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 KD	2017 KD
Profit for the year	**2,286,764**	2,151,270
Other comprehensive income:		
Items that will not be reclassified subsequently to consolidated statement of profit or loss:		
Financial assets at fair value through other comprehensive income:		
- Net change in fair value arising during the year	**(10,764,560)**	-
Items that may be reclassified subsequently to consolidated statement of profit or loss:		
Exchange differences arising on translation of foreign operations	**112,177**	2,633,949
Available for sale investments:		
- Net change in fair value arising during the year	**-**	2,039,023
- Transferred to consolidated statement of profit or loss on sale	**-**	14,210
- Transferred to consolidated statement of profit or loss on impairment	**-**	77,105
Share of other comprehensive (loss)/income of associates	**(201,285)**	108,319
Total other comprehensive (loss)/income for the year	**(10,853,668)**	4,872,606
Total comprehensive (loss)/income for the year	**(8,566,904)**	7,023,876
Attributable to:		
Shareholders of the Parent Company	**(8,176,280)**	4,615,566
Non-controlling interests	**(390,624)**	2,408,310
Total comprehensive (loss)/income for the year	**(8,566,904)**	7,023,876

The notes set out on pages 12 to 67 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2018

	Notes	2018 KD	2017 KD
Assets			
Cash and cash equivalents	12	**10,374,053**	7,805,543
Instalment credit debtors	13	**7,904,355**	8,931,619
Financial assets at fair value through profit or loss	14	**9,847,774**	7,905,472
Accounts receivable and other assets	15	**4,191,835**	5,135,927
Properties held for trading	16	**1,023,280**	1,327,865
Financial assets at fair value through other comprehensive income	17	**76,596,937**	-
Available for sale investments		**-**	86,466,759
Investment in associates	18	**27,476,807**	28,178,561
Investment in real estate under development	19	**5,050,140**	4,120,080
Investments properties	20	**1,655,205**	1,713,944
Property and equipment	21	**2,820,274**	3,028,056
Total assets		**146,940,660**	154,613,826
Liabilities and equity			
Liabilities			
Due to banks	22	**4,019,970**	5,226,027
Accounts payable and other liabilities	23	**7,049,378**	7,474,742
Term loans	24	**17,880,000**	16,380,000
Murabaha payable	25	**4,469,119**	5,267,067
Provision for employees' end of service benefits		**1,369,578**	1,175,185
Total liabilities		**34,788,045**	35,523,021
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	**503,767**	246,687
Voluntary reserve	28	**503,767**	246,687
Foreign currency translation reserve		**(318,402)**	(415,344)
Fair value reserve		**(2,436,904)**	8,235,780
Retained earnings		**1,461,292**	1,930,453
Total equity attributable to the shareholders of the Parent Company		**103,245,817**	113,776,560
Non-controlling interests		**8,906,798**	5,314,245
Total equity		**112,152,615**	119,090,805
Total liabilities and equity		**146,940,660**	154,613,826

Jassem Hasan Zainal
Vice chairman and CEO

The notes set out on pages 12 to 67 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

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 2018	80,288,256	23,803,273	(559,232)	246,687	246,687	(415,344)	8,235,780	1,930,780	113,776,560	5,314,245	119,090,805
Adjustment arising on adoption of IFRS 9 (note 3.1)	-	-	-	-	-	-	(330,075)	(1,592,801)	(1,922,876)	-	(1,922,876)
Balance as at 1 January 2018 (restated)	80,288,256	23,803,273	(559,232)	246,687	246,687	(415,344)	7,905,705	337,652	111,853,684	5,314,245	117,167,929
Disposal of partial interest in a subsidiary (note 6.1.1)	-	-	-	-	-	-	-	(431,587)	(431,587)	431,587	-
Effect of change in ownership percentage of subsidiary (note 6.1.1)	-	-	-	-	-	-	-	-	-	3,551,590	3,551,590
Total transactions with owners	-	-	-	-	-	-	-	(431,587)	(431,587)	3,983,177	3,551,590
Profit/(loss) for the year	-	-	-	-	-	-	-	2,533,530	2,533,530	(246,766)	2,286,764
Other comprehensive income/(loss) for the year	-	-	-	-	-	96,942	(10,806,752)	-	(10,709,810)	(143,858)	(10,853,668)
Total comprehensive income/(loss) for the year	-	-	-	-	-	96,942	(10,806,752)	2,533,530	(8,176,280)	(390,624)	(8,566,904)
Loss on disposal of financial assets at FVTOCI	-	-	-	-	-	-	464,143	(464,143)	-	-	-
Transferred to reserves	-	-	-	257,080	257,080	-	-	(514,160)	-	-	-
Balance at 31 December 2018	80,288,256	23,803,273	(559,232)	503,767	503,767	(318,402)	(2,436,904)	1,461,292	103,245,817	8,906,798	112,152,615

The notes set out on pages 12 to 67 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2018

	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	-	-	-	-	-	-	-	-	-	(40,668,920)	(40,668,920)
Effect of change in ownership percentage of subsidiary	-	-	-	-	-	-	-	(36,962)	36,962	36,962	-
Transactions with owners	-	-	-		-	-	-	(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 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	-	-	(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 12 to 67 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2018

	Notes	2018 KD	2017 KD
OPERATING ACTIVITIES			
Profit for the year		**2,286,764**	2,151,270
Adjustments:			
Interest income		**(1,027,704)**	(709,065)
Dividend income	11	**(2,255,153)**	(1,966,989)
Impairment of available for sale investments		**-**	77,105
Impairment of investment in real estate under development	19	**67,080**	83,850
Loss on sale of available for sale investments		**-**	48,214
Loss/(gain) on sale of properties held for trading		**18,119**	(17,440)
Reversal of provision for properties held for trading	16	**(65,156)**	(120,561)
Gain on liquidation of subsidiaries		**-**	(76,216)
Loss on deemed disposal of subsidiaries		**-**	46,909
Share of results of associates	18	**(206,489)**	(477,402)
(Reversal)/provision for instalment credit debtors		**(216,111)**	475,148
Provision for doubtful debts		**209,392**	-
Finance costs		**1,580,541**	1,712,668
Depreciation		**418,828**	446,896
Provision for employees' end of service benefits		**239,318**	266,152
		1,049,429	1,940,539
Changes in operating assets and liabilities:			
Instalment credit debtors		**(500,173)**	1,711,886
Financial assets at fair value through profit or loss		**749,649**	(1,090,600)
Accounts receivable and other assets		**(2,082,116)**	(910,983)
Accounts payable and other liabilities		**(166,425)**	26,452
Employees' end of service benefits paid		**(45,793)**	(14,841)
Net cash (used in)/from continuing operations		**(995,429)**	1,662,453
Net cash from discontinued operations		**-**	127,260
Net cash (used in)/from operating activities		**(995,429)**	1,789,713
INVESTING ACTIVITIES			
Purchase of property and equipment	21	**(153,229)**	(196,725)
Purchase of financial assets at fair value through other comprehensive income		**(3,543,385)**	-
Purchase of available for sale investments		**-**	(11,548,027)
Proceeds from sale of available for sale investments		**-**	8,589,006
Proceeds from sale of financial assets at fair value through other comprehensive income		**2,874,657**	-
Proceeds from sale of properties held for trading		**351,623**	124,083
Proceeds from liquidation of subsidiaries		**-**	1,551,448
Additions on investments in real estate under development	19	**(997,141)**	(22,990)
Dividend income received		**2,255,153**	1,966,989
Dividend from associates	18	**721,958**	707,512
Interest income received		**442,494**	320,599
Net cash from investing activities		**1,952,130**	1,491,895

The notes set out on pages 12 to 67 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2018

	Notes	2018 KD	2017 KD
FINANCING ACTIVITIES			
Net movement in term loans		**1,500,000**	(2,350,000)
Repayment of murabaha payable		**(797,948)**	(2,818,811)
Finance costs paid		**(1,483,356)**	(1,712,668)
Change in ownership percentage of subsidiary		**3,576,900**	-
Net cash from/(used in) financing activities		**2,795,596**	(6,881,479)
Net increase in cash and cash equivalents		**3,752,297**	(3,599,871)
Foreign currency adjustment		**22,270**	(76,789)
Cash and cash equivalents at beginning of the year	12	**2,579,516**	6,256,176
Cash and cash equivalents at end of the year	12	**6,354,083**	2,579,516

Non-cash transactions:

Accounts receivable and other assets		**(3,204,643)**	(2,669,755)
Due from/to related parties		**713,848**	(1,070,574)
Accounts payables and other liabilities		**3,576,900**	875,202
Instalment credit debtors		**(1,277,476)**	-
Purchase of financial assets at fair value through other comprehensive income		**2,917,958**	-
Financial assets at fair value through profit or loss		**2,691,951**	-

The notes set out on pages 12 to 67 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

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 2018

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.
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

1. Incorporation and activities (continued)

- 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 Parent 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 24 March 2019. 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 ("CBK"). The modification requires adoption of all IFRSs for such institutions except for the IFRS 9 requirement for measurement of estimated credit losses ("ECL") for credit facilities. The CBK requires to measure the provision for credit losses at the higher of provision calculated under IFRS 9 in accordance with the CBK guidelines, and the provision required by the prudential regulations of the CBK.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

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 2018 which have been adopted by the Group. Information on these new standards is presented below:

Standard or Interpretation	Effective for annual periods beginning
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
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 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 impact are as follows:
- the classification and measurement of the financial assets are 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 is recognised on the 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 is no longer possible to measure equity investments at cost less impairment and all such investments are instead measured at fair value. Changes in fair value are 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 are presented in other comprehensive income to the extent those changes relate to own credit risk.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The standard eliminates 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 (FVTOCI) are now 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 FVTOCI are now recognised in equity and not recycled to profit or loss on derecognition. Dividend income on these assets continues to be recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

3 Changes in accounting policies (continued)
3.1 New and amended standards adopted by the group (continued)
IFRS 9 Financial Instruments (continued)

Based on the analysis of the Group's financial assets and liabilities as at 1 January 2018 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.

Debt instruments to be measured at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's debt financial instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell.

Instalment credit debtors and accounts receivable 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.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

	IAS 39		IFRS 9	
	Classification	**Carrying amount KD**	**Classification**	**Carrying amount KD**
Financial assets				
Cash and cash equivalents	Loans and receivables	7,805,543	Amortised cost	7,802,427
Instalment credit debtors	Loans and receivables	8,931,619	Amortised cost	7,383,064
Accounts receivable and other assets	Loans and receivables	5,135,927	Amortised cost	4,764,722
Local quoted shares	FVTPL	881,992	FVTPL	881,992
Foreign unquoted shares	FVTPL	61,013	FVTPL	61,013
Investments in managed portfolios	FVTPL	6,962,467	FVTPL	6,962,467
Local quoted shares	Available for sale	6,133,960	FVTOCI	6,133,960
Local unquoted shares	Available for sale	12,734,773	FVTOCI	12,734,773
Foreign unquoted shares	Available for sale	2,691,951	FVTPL	2,691,951
Foreign unquoted shares	Available for sale	33,922,756	FVTOCI	33,922,756
Investments in managed portfolios	Available for sale	30,790,517	FVTOCI	30,790,517
Investment in managed funds	Available for sale	192,802	FVTOCI	192,802
Total financial assets		116,245,320		114,322,444

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

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

IFRS 9 Financial Instruments (continued)
Classification and measurement (continued):

As a result of the above re-classification of available for sale investments to financial assets at fair value through profit or loss, the Group reclassified an amount of KD330,075 from fair value reserve account to the retained earnings.

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

Impairment:
IFRS 9 requires the Group to record expected credit losses (ECL) on all of its financial assets measured at amortised cost. ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. Under IFRS 9, the Group measures ECL as follows:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument

The Group has applied simplified approach to impairment for financial assets at amortised cost as required or permitted under the standard. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Instalment credit debtors are subject to the minimum provisioning requirements of the Central Bank of Kuwait. The CBK require to measure the provision for credit losses at the higher of provision calculated under IFRS 9 in accordance with the CBK guidelines, and the provision required by the prudential regulators of the CBK.

As a result, the Group recognised an additional impairment loss amounting to KD1,922,876 in the retained earnings as at 1 January 2018 on its financial assets at amortised cost.

Summary of impact on application of IFRS 9:
As allowed by the transition provisions of IFRS 9, the Group elected not to restate comparative information for prior periods with respect to classification and measurement and impairment requirements. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in the retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for the comparative periods does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

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

IFRS 9 Financial Instruments (continued)

Adjustments to the opening consolidated statement of financial position are detailed below:

	31 Dec. 2017 KD	Adjustments/ reclassifications KD	1 Jan. 2018 KD
Assets			
Cash and cash equivalents	7,805,543	(3,116)	7,802,427
Instalment credit debtors	8,931,619	(1,548,555)	7,383,064
Accounts receivables and other assets	5,135,927	(371,205)	4,764,722
Financial assets at fair value through profit or loss	7,905,472	2,691,951	10,597,423
Financial assets at fair value through other comprehensive income	-	83,774,808	83,774,808
Available for sale investments	86,466,759	(86,466,759)	-
Equity			
Fair value reserve	8,235,780	(330,075)	7,905,705
Retained earnings	1,930,453	(1,592,801)	337,652

IFRS 15 Revenue from Contracts with Customers

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

The five steps in the model are as follows:
- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

3 Changes in accounting policies (continued)
3.1 New and amended standards adopted by the group (continued)
IFRS 15 Revenue from Contracts with Customers (continued)

- 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 licensing
  - o breakage
  - o non-refundable upfront fees, and
  - o consignment and bill-and-hold arrangements.

The Group recognises revenue from the following major sources:
- Providing asset management services to customers at pre-agreed rates based on the net asset value of the managed portfolios. The Group has reassessed its revenue recognition policy and has concluded that it will continue to recognize revenue on transfer of these services over time.
- Fees arising for rendering specific advisory services, brokerage services and similar services 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.

Hence, the implementation of IFRS 15 on 1 January 2018 did not have any impact on the Group's consolidated financial statements.

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.

Adoption of these amendments did not 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.

Adoption of these amendments did not have a significant impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3 Changes in accounting policies (continued)

3.1 New and amended standards adopted by the group (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.

Adoption of these amendments did not have a significant impact on the Group's consolidated financial statements.

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.

Standard or Interpretation	*Effective for annual periods beginning*
IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments	No stated date
IFRS 16 Leases	1 January 2019
IAS 28 - Amendments	1 January 2019
IFRS 3 - Amendments	1 January 2020
IAS 1 and IAS 8 - Amendments	1 January 2020

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

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.

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.

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.

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

IAS 28 – Amendments

The amendments to IAS 28 clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

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 2018

4 Significant accounting policies (continued)
3.2 IASB Standards issued but not yet effective (continued)

IFRS 3 – Amendments
The Amendments to IFRS 3 Business Combinations are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only with respect to Definition of Business. The amendments:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business

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.

IAS 1 and IAS 8 – Amendments
The amendments to IAS 1 and IAS 8 clarify the definition of ‘material’ and align the definition used in the Conceptual Framework and the standards.

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 financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income 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”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

4. Significant accounting policies (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

4. Significant accounting policies (continued)
4.3 Business combinations (continued)

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.

4.5 Revenue from contracts with customers
Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. The Group follows a 5-step process:

1 Identifying the contract with a customer
2 Identifying the performance obligations
3 Determining the transaction price
4 Allocating the transaction price to the performance obligations
5 Recognising revenue when/as performance obligation(s) are satisfied.

The total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts, if any, as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable, if any, in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

4. Significant accounting policies (continued)
4.5 Revenue from contracts with customers (continued)

4.5.1 Asset management services
Asset management fees is variable consideration based on the net assets value of portfolios at pre-agreed rates in accordance with the respective contracts with customers for the supervision and managing portfolios' assets, safe custody of the assets and conducting buy/sell transactions for the customers.

4.5.2 Fees from advisory 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 Interest on instalment credit loans
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.

4.7 Interest income
Interest income is recognised using the effective interest method.

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

4.9 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.

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

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

4.11 Taxation

4.11.1 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

4. Significant accounting policies (continued)
4.11 Taxation (continued)

4.11.2 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.

4.11.3 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.

4.12 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.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

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

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.

4.14 Financial instruments

4.14.1 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 directly attributable 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

4. Significant accounting policies (continued)
4.14 Financial instruments (continued)
4.14.1 Recognition, initial measurement and derecognition (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass- through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it 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.

4.14.2 Classification of financial assets
For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- financial assets at amortised cost
- financial assets at fair value through other comprehensive income (FVTOCI)
- financial assets at fair value through profit or loss (FVTPL)

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

The Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

4.14.3 Subsequent measurement of financial assets

- ***Financial assets at amortised cost***

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

4. Significant accounting policies (continued)
4.14 Financial instruments (continued)
4.14.3 Subsequent measurement of financial assets (continued)

The Group's financial assets at amortised cost comprise of the following:

- 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 FVTOCI***

The Group's financial assets at FVTOCI comprise equity investments and debt instruments. The equity investments represent investments in shares of various companies and include both quoted and unquoted.

The Group accounts for financial assets at FVTOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled to the consolidated statement of profit or loss upon derecognition of the asset (except for equity investments at FVTOCI as detailed below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

4. Significant accounting policies (continued)
4.14 Financial instruments (continued)
4.14.3 Subsequent measurement of financial assets (continued)
- ***Financial assets at FVTOCI (continued)***

Equity investments at FVTOCI
On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs.

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value reserve. The cumulative gain or loss is transferred to retained earnings within the consolidated statement of changes in equity.

Dividends on these investments in equity instruments are recognised in the consolidated statement of profit or loss.

- ***Financial assets at FVTPL***

Financial assets that do not meet the criteria for measurement at amortised cost or FVOCI are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. The category also contains investments in equity shares.

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.

The Group's financial assets at FVTPL comprise investment in equity shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

4. Significant accounting policies (continued)
4.14 Financial instruments (continued)

4.14.4 Impairment of financial assets
All financial assets except for those at FVTPL and Equity investments at FVTOCI 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.

The Group recognises a loss allowance for expected credit losses (“ECL”) on financial assets at amortised cost or at FVTOCI.

For financial assets (except instalment credit debtors), the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset.

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 measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the
magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets’ gross carrying amount at the reporting date.

The Group always recognises lifetime ECL for accounts receivable and other assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognises an impairment gain or loss in the consolidated statement of profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. Significant accounting policies (continued)
4.14 Financial instruments (continued)
4.14.4 Impairment of financial assets (continued)

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

4.14.5 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 at amortised cost***

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

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

Accounts payable and other liabilities
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.

4.15 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.

4.16 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

4. Significant accounting policies (continued)

4.17 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.

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

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

4.19 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.

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
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4. Significant accounting policies (continued)

4.20 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.

4.21 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.

4.22 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. Significant accounting policies (continued)
4.22 Property and equipment (continued)

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.

4.23 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.

4.24 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
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4. Significant accounting policies (continued)

4.25 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.

4.26 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.

4.27 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.

4.28 Foreign currency translation

4.28.1 Functional and presentation currency
The consolidated financial statements are presented in currency Kuwait Dinar (KD), which is also the functional currency of the Parent Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

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

4.28.3 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.

4.29 Fiduciary assets

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

5 Significant management judgements and estimation uncertainty

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

5.1 Significant management judgments

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

5.1.1 Business model assessment

The Group classifies financial assets after performing the business model test (please see accounting policy for financial instruments sections in note 4.14). This test includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured and the risks that affect the performance of the assets. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

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

5.1.2 Significant increase in credit risk
Estimated credit losses are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define "significant" increase. Therefore, assessment whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

5.1.3 Judgements in determining the timing of satisfaction of performance obligations
The determination of the whether or not performance obligation criterial set out in IFRS 15 relating to transfer of control of goods to customers has been satisfied requires significant judgement.

5.1.4 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.

5.1.5 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 2018

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

5.2.3 Impairment of financial assets
Measurement of estimated credit losses involves estimates of loss given default and probability of default. Loss given default is an estimate of the loss arising in case of default by customer. Probability of default is an estimate of the likelihood of default in the future. The Group based these estimates using reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

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.

5.2.4 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.

5.2.5 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.

5.2.6 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.

5.2.7 Fair value of financial instruments
Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. 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.

5.2.8 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
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6. Subsidiaries

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

Company name	Voting capital held as at 31 December 2018	2017	Place of incorporation	Principal activities	Reporting date
Direct subsidiaries:					
Al-Addan Real Estate Co. – SPC	**100%**	100%	Kuwait	Trading in all real estate activities	31 December 2018
Arzan CC for Collection Co. – SPC	**100%**	100%	Kuwait	Trading in real estate activities and collecting money on behalf of others	31 December 2018
Kuwait Invest Real Estate Co.– WLL	**51%**	51%	Kuwait	Real estate services	31 December 2018
International Finance Company – SAL	**100%**	100%	Lebanon	Finance services including financing, management and brokerage	30 September 2018
IFA Securities Brokerage Co.- SAE	**84.55%**	84.55%	Egypt	Brokerage services	30 September 2018
International Financial Advisers Company – WLL	**65.20%**	65.20%	Jordan	Brokerage services	30 September 2018
Saudi Invest Real Estate Co. – WLL	**100%**	100%	Saudi Arabia	Real estate services	31 December 2018
Arzan Wealth (DIFC) Co. Limited (6.1.3)	**-**	100%	United Arab Emirates	Financial advisory services	31 December 2018
Arzan VC for Projects Management –WLL (6.1.3)	**-**	99%	Kuwait	Projects management	31 December 2018
Arzan VC I Ltd.	**100%**	100%	United Arab Emirates	Projects management	31 December 2018
HI Equity Company Ltd.	**99.29%**	99.29%	Cayman Islands	Real estate	30 September 2018
HI Debt Company Ltd.	**99.29%**	99.29%	Cayman Islands	Real estate	30 September 2018
Arzan Capital (Holding) Limited (6.1.1)	**81.81%**	100%	United Arab Emirates	Holding Company	30 September 2018
Arzan AM Limited	**100%**	100%	United Arab Emirates	General Trading	31 December 2018
Arzan Real Estate Co. – SAE	**80%**	80%	Egypt	Real estate	30 September 2018
Blender Company for Rent and Lease Lands and Properties – SPC (6.1.2)	**100%**	-	Kuwait	Real estate	31 December 2018
Indirect subsidiaries:					
Through Arzan Capital (Holding) Limited:					
Arzan Wealth (DIFC) Co. Limited(6.1.3)	**100%**	-	United Arab Emirates	Financial advisory services	30 September 2018
Arzan VC for Projects Management –WLL (6.1.3)	**99%**	-	Kuwait	Projects management	31 December 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. Subsidiaries (continued)
6.1 Composition of the group (continued)

6.1.1 During the year, Arzan Capital (Holding) Limited increased its share capital by USD60 million in kind from USD1 million to USD61 million. The subsidiary again increased the share capital by USD11.8 million to USD72.8 million in which the Group did not participate. As a result the Group's ownership diluted from 100% to 83.79%.

Furthermore, during the year, the Parent Company's board of directors approved to transfer part of its ownership in Arzan Capital (Holding) Ltd, equivalent to 6 million shares with nominal value of USD1 per share, to the employees of the subsidiary to be distributed in accordance with the Employee Stock Option Plan of Arzan Capital (Holding) Ltd. Accordingly, during the year 1,442,095 shares equivalent to 2.36% of the Group's ownership interest in Arzan Capital (Holding) Limited was transferred. This transaction resulted in a loss of KD431,587 recognised in the shareholders' equity.

6.1.2 During the year, the Group established a new subsidiary under the name of Blender Company for Rent and Lease Lands and Properties – SPC in Kuwait with a share capital of KD75,000 representing its 100% ownership interest in the subsidiary.

6.1.3 During the year, the Group transferred its ownership in Arzan Wealth (DIFC) Co. Limited and Arzan VC for Projects Management – WLL to its subsidiary Arzan Capital (Holding) Limited. No gain or loss was recognised in these consolidated financial statements as a result of these transfers.

6.2 Subsidiaries with material non-controlling interests:
The Group includes the following subsidiaries with material non-controlling interests (NCI):

	Proportion of ownership interests and voting rights held by the NCI		**Results allocated to NCI**		**Accumulated NCI**	
Name	**31 Dec. 2018 %**	31 Dec. 2017 %	**31 Dec. 2018 KD**	31 Dec. 2017 KD	**31 Dec. 2018 KD**	31 Dec. 2017 KD
Kuwait Invest Real Estate Co. – WLL	**49**	49	**(322,645)**	(525,048)	**4,217,202**	4,638,471
Azan Capital (Holding) Ltd	**18.19**	-	**63,838**	-	**3,980,372**	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

6. Subsidiaries (continued)

6.2 Subsidiaries with material non-controlling interests (continued)

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

a) Kuwait Invest Real Estate Co. – WLL

	31 Dec. 2018 KD	31 Dec. 2017 KD
Non-current assets	**8,655,746**	9,501,522
Current assets	**6,393**	7,426
Total assets	**8,662,139**	9,508,948
Current liabilities	**55,605**	42,680
Total liabilities	**55,605**	42,680
Equity attributable to the shareholders of the parent company	**4,389,332**	4,827,797
Non-controlling interests	**4,217,202**	4,638,471
Total equity	**8,606,534**	9,466,268

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
Income	**(105,501)**	(337,713)
Expenses and other charges	**(552,958)**	(733,813)
Loss for the year attributable to the shareholders of the parent company	**(335,814)**	(546,478)
Loss for the year attributable to NCI	**(322,645)**	(525,048)
Loss for the year	**(658,459)**	(1,071,526)
Total comprehensive loss for the year attributable to the shareholders of the parent company	**(438,464)**	(493,153)
Total comprehensive loss for the year attributable to NCI	**(421,269)**	(473,814)
Total comprehensive loss for the year	**(859,733)**	(966,967)

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
Net cash flow from operating activities	**(7,034)**	(96)
Net cash outflows	**(7,034)**	(96)

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31 December 2018

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

b) Arzan Capital (Holding) Ltd

	31 Dec. 2018 KD	31 Dec. 2017 KD
Non-current assets	**18,938,052**	-
Current assets	**3,202,992**	-
Total assets	**22,141,044**	-
Non-current liabilities	**107,617**	-
Current liabilities	**248,954**	-
Total liabilities	**356,571**	-
Equity attributable to the shareholders of the Parent Company	**17,804,101**	-
Non-controlling interests	**3,980,372**	-
Total equity	**21,784,473**	-

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
Income	**1,152,791**	-
Expenses and other charges	**(627,656)**	-
Profit for the year attributable to the shareholders of the Parent Company	**461,297**	-
Profit for the year attributable to NCI	**63,838**	-
Profit for the year	**525,135**	-
Total comprehensive income for the year attributable to the shareholders of the Parent Company	**104,382**	-
Total comprehensive income for the year attributable to NCI	**14,445**	-
Total comprehensive income for the year	**118,827**	-
Net cash flow from operating activities	**1,656,904**	-
Net cash inflows	**1,216,098**	-

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31 December 2018

7 Income from instalment credit debtors

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
Interest income from instalment credit	**923,980**	892,153
Discount, commission and fees	**467,218**	387,287
Recovery of written off balances	**303,986**	386,552
	1,695,184	1,665,992

8 Revenue from contracts with customers

The Group earns revenue from its asset management and advisory services, which is transferred over time.

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
Assets management	**67,150**	5,278
Custodian and other fees	**263,081**	231,951
Advisory services	**1,326,093**	2,188,642
	1,656,324	2,425,871

Revenue from advisory services represents 80% of the revenue from contracts with customers for the year ended 31 December 2018 (31 December 2017: 90%).

9 Finance costs

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
On financial liabilities at amortised cost:		
Others	**45,190**	149,998
Due to banks	**298,946**	274,805
Term loans	**981,210**	933,356
Murabaha payable	**255,195**	354,509
	1,580,541	1,712,668

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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. 2018 KD	Year ended 31 Dec. 2017 KD
Profit for the year attributable to shareholders of the Parent Company from continuing operations (KD)	**2,533,530**	1,695,515
Profit for the year attributable to shareholders of the Parent Company from discontinued operations (KD)	**-**	46,266
	2,533,530	1,741,781
Weighted average number of shares outstanding during the year (excluding treasury shares) – shares	**796,798,668**	796,798,668
Basic and diluted earnings per share attributable to the shareholders of the Parent Company – Fils		
- From continuing operations	**3.180**	2.128
- From discontinued operations	**-**	0.058
Total (Fils)	**3.180**	2.186

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11 Net (loss)/gain on financial assets

Net (loss)/gain on financial assets, analysed by category, is as follows:

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
At amortised cost:		
Cash and cash equivalents	**950,154**	709,065
Instalments credit debtors	**1,911,295**	1,190,844
	2,861,449	1,899,909
Financial assets at fair value through profit or loss:		
Gain on change in fair value	**953,926**	215,465
Gain on sale	**391,004**	299,287
Dividend income	**372,827**	229,897
	1,717,757	744,649
Financial assets at fair value through other comprehensive income:		
Interest income	**77,550**	-
Dividend income	**1,882,326**	-
Recognised in consolidated statement of profit or loss	**1,959,876**	-
Loss on change in fair value	**(10,764,560)**	-
Loss on sale	**(464,143)**	-
Recognised in equity	**(11,228,703)**	-
	(9,268,827)	-
Financial assets available for sale:		
Loss on sale	**-**	(48,214)
Dividend income	**-**	1,737,092
Impairment of available for sale investments	**-**	(77,105)
Recognised in consolidated statement of profit or loss	**-**	1,611,773
Recognised in equity	**-**	2,130,338
	-	3,742,111
	(4,689,621)	6,386,669

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12 Cash and cash equivalents

	31 Dec. 2018 **KD**	31 Dec. 2017 KD
Cash and bank balances	**7,414,427**	4,607,292
Term deposits – 1 to 3 months	**2,959,626**	3,198,251
Cash and cash equivalents	**10,374,053**	7,805,543
Less: due to banks	**(4,019,970)**	(5,226,027)
Cash and cash equivalents for statement of cash flow	**6,354,083**	2,579,516

The term deposits carry effective interest rate of 1.35% (31 December 2017: 1.35%) per annum.

13 Instalment credit debtors

	31 Dec. 2018 **KD**	31 Dec. 2017 KD
Gross instalment credit debtors	**12,904,423**	12,414,947
Deferred income	**(1,541,493)**	(1,364,486)
	11,362,930	11,050,461
Specific provision for credit losses	**(2,106,596)**	(2,000,048)
General provision for credit losses	**(1,351,979)**	(118,794)
	7,904,355	8,931,619

Gross instalment credit debtors are repayable as follows:

	31 Dec. 2018 **KD**	31 Dec. 2017 KD
Within one year	**3,477,065**	3,221,459
More than a year	**9,427,357**	9,193,488
	12,904,423	12,414,947

The effective annual interest rate earned on instalment credit ranged from 2.5% to 8% per annum (31 December 2017: 2.5% to 8% per annum).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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13 Instalment credit debtors (continued)

The gross instalment credit debtors include an amount of KD759,723 (31 December 2017: KD817,066) in respect of related parties (note 33). This amount is secured by way of pledge of certain local shares.

The movements in the provisions for credit losses are as follows:

	31 December 2018			31 December 2017		
	Specific provision KD	**General provision KD**	**Total KD**	Specific provision KD	General provision KD	Total KD
Opening balance	**2,000,048**	**118,794**	**2,118,842**	1,682,970	194,179	1,877,149
Effect of adoption IFRS 9	**416,949**	**1,131,606**	**1,548,555**	-	-	-
Write off during the year	**-**	**-**	**-**	(213,323)	-	(213,323)
Charge for the year	**51,533**	**198,428**	**249,961**	472,245	2,903	475,148
Transfer	**(42,580)**	**42,580**	**-**	76,783	(76,783)	-
Reversal during the year	**(326,084)**	**(139,988)**	**(466,072)**	-	-	-
Foreign currency translation differences	**6,730**	**559**	**7,289**	(18,627)	(1,505)	(20,132)
Closing balance	**2,106,596**	**1,351,979**	**3,458,575**	2,000,048	118,794	2,118,842

Provision for credit losses is calculated, in all material respect, with the requirements of the Central Bank of Kuwait.

14 Financial assets at fair value through profit or loss

	31 Dec. 2018 KD	31 Dec. 2017 KD
Local quoted shares	**929,905**	881,992
Foreign quoted shares	**221,427**	61,013
Foreign unquoted shares	**1,998,196**	-
Investments in managed portfolios	**6,698,246**	6,962,467
	9,847,774	7,905,472

The investments in managed portfolios with aggregate carryings value of KD6,262,169 (31 December 2017: KD6,479,050) are pledged against term loans (note 24).

The hierarchy for determining and disclosing the fair values of financial assets at fair value through profit or loss is presented in Note 35.2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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15 Accounts receivable and other assets

	31 Dec. 2018	31 Dec. 2017
	KD	KD
Financial assets		
Trade receivables	**3,196,765**	3,734,172
Due from related parties	**948,467**	191,306
Staff loans receivable	**3,479**	5,944
	4,148,711	3,931,422
Provision for doubtful debts	**(2,209,758)**	(1,654,249)
	1,938,953	2,277,173
Non-financial assets		
Prepayments	**147,791**	19,651
Advance payments to purchase investments	**1,000,976**	1,206,370
Other assets	**1,104,115**	1,632,733
	4,191,835	5,135,927

The carrying values of the financial assets included above approximate their fair values and all are due within one year.

The movement in the provision for accounts receivable is as follows:

	31 Dec. 2018	31 Dec. 2017
	KD	KD
Balance at the beginning of the year	**1,654,249**	1,654,249
Arising on adoption of IFRS 9	**371,204**	-
Charge for the year	**290,781**	-
Written off during the year	**(27,518)**	-
Reversal during the year	**(78,958)**	-
Balance at end of the year	**2,209,758**	1,654,249

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

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. 2018	31 Dec. 2017
	KD	KD
Balance at 1 January	**1,799,345**	1,934,714
Disposal during the year	**(389,814)**	(135,369)
	1,409,531	1,799,345
Provision for properties held for trading	**(386,251)**	(471,480)
Balance at 31 December	**1,023,280**	1,327,865

As a result of impairment testing of the carrying value of the properties, an amount of KD65,156 (31 December 2017: KD120,561) has been recognised as a gain on reversal of provision recognised in prior years. The impairment testing by management was based on fair value of the properties which has been determined based on two valuations obtained from independent and qualified valuers as of the date of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

17 Financial assets at fair value through other comprehensive income

	31 Dec. 2018 KD	31 Dec. 2017 KD
Local quoted shares	**5,146,295**	-
Local unquoted shares	**13,325,654**	-
Foreign unquoted shares	**28,981,411**	-
Investments in managed portfolios	**22,275,990**	-
Debt instruments	**6,618,848**	-
Investment funds	**248,739**	-
	76,596,937	-

These investments are held for medium to long-term strategic purposes. Accordingly, the Group has elected to designate these financial assets as at FVTOCI as it believes that recognising short-term fluctuations in the fair value of these financial assets in the consolidated statement of profit or loss would not be consistent with the Group's strategy of holding these financial assets for long-term purposes and realising their performance potential in the long run. The group's financial assets at FVTOCI disaggregated by its business sectors are as follows:

	Financial services KD	**Real estate KD**	**Consumer services KD**	**Others KD**	**Total KD**
Local quoted shares	**130,089**	**4,040,421**	**950,107**	**25,678**	**5,146,295**
Local unquoted shares	**13,262,124**	**32,806**	**-**	**30,724**	**13,325,654**
Foreign unquoted shares	**11,050,788**	**17,200,191**	**-**	**730,432**	**28,981,411**
Investments in managed portfolios	**14,152,270**	**-**	**8,123,720**	**-**	**22,275,990**
Debt instruments	**-**	**5,724,549**	**894,299**	**-**	**6,618,848**
Investment funds	**248,739**	**-**	**-**	**-**	**248,739**
	38,844,010	**26,997,967**	**9,968,126**	**786,834**	**76,596,937**

Debt instruments amounting to KD894,299 are secured by charges over real estate properties and carry average interest rate of 7% (31 December 2017: 9%) per annum.

Quoted and unquoted local shares and investments in managed portfolios with an aggregate carrying value of KD28,178,450 (31 December 2017: KD35,953,779) are pledged against due to banks, term loans and murabaha payable (notes 22, 24 and 25).

The hierarchy for determining and disclosing the fair values of financial instruments is presented in note 35.2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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
		2018 %	2017 %	
Offset Holding Co. - KSCC	Kuwait	**50.00**	50.00	Holding Company
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
Arzan International Company for Hospital Construction and Management – WLL (*)	Kuwait	**10.00**	-	Establishment & Management of Hospitals

During the year, the Group with other parties established a new company, Arzan International Company for Hospital Construction and Management – WLL in Kuwait. The Group's ownership in the investee is 10%. However, the Group classified this investment as an associate because it is able to exercise significant influence over the operations of associate but do not control the investee.

All associates are unquoted.

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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	
	31 Dec. 2018 KD	31 Dec. 2017 KD	**31 Dec. 2018 KD**	31 Dec. 2017 KD
Assets	**21,925,089**	23,860,549	**50,248,038**	49,017,903
Current	**4,905,494**	5,009,448	**19,016,499**	20,369,555
Non-current	**17,019,595**	18,851,101	**31,231,539**	28,648,348
Liabilities	**1,044,179**	858,752	**21,523,247**	21,596,377
Current	**380,633**	227,510	**6,978,174**	6,069,989
Non-current	**663,546**	631,242	**14,545,073**	15,526,388
	20,880,910	23,001,797	**28,724,791**	27,421,526
Non-controlling interests	**(3,569,418)**	(3,998,753)	**(771,455)**	(300,573)
Net assets	**17,311,492**	19,003,044	**27,953,336**	27,120,953
Group's share of net assets	**8,655,746**	9,501,522	**9,503,743**	9,225,850
Goodwill	**-**	-	**7,905,703**	8,039,252
Carrying amount	**8,655,746**	9,501,522	**17,409,446**	17,265,102
Revenue	**1,229,045**	221,645	**11,000,204**	8,351,828
Net (loss)/profit	**(1,289,004)**	(1,393,705)	**2,293,115**	3,869,582
Total comprehensive (loss)/income	**(402,548)**	(466,305)	**2,293,115**	3,880,639
Group' share of results	**(644,502)**	(1,055,993)	**779,627**	1,315,604
Dividend received	**-**	-	**635,283**	635,283

The remaining associates are considered immaterial to the Group.

The remaining associates are considered immaterial to the group.

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31 December 2018

18. Investment in associates (continued)

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

	31 Dec. 2018 KD	31 Dec. 2017 KD
Aggregate share in associates' assets and liabilities:		
Assets	**1,488,535**	1,608,277
Liabilities	**76,917**	196,340
	1,411,618	1,411,937
Aggregate share in associates' results:		
Revenue	**190,325**	285,332
Profit for the year	**71,364**	217,791
Group's share of total comprehensive income	**71,309**	217,791
Dividends received	**86,675**	72,229

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

	31 Dec. 2018 KD	31 Dec. 2017 KD
At 1 January	**28,178,561**	47,347,791
Arising on liquidation and loss of control of subsidiaries	**-**	(19,047,439)
Additions	**15,000**	-
Share of results	**206,489**	477,402
Dividends	**(721,958)**	(707,512)
Share of other comprehensive income	**(201,285)**	108,319
At 31 December	**27,476,807**	28,178,561

Investments in associate with a carrying value of KD8,140,899 (31 December 2017: KD7,629,156) are pledged against term loans (note 24).

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19 Investments in real estate under development

	31 Dec. 2018 KD	31 Dec. 2017 KD
Cost		
Land cost	**4,120,080**	4,180,940
Lands purchased	**854,154**	-
Development costs	**142,985**	22,990
Total cost	**5,117,220**	4,203,930
Provision for Impairment in value	**(67,080)**	(83,850)
Net book value at end of the year	**5,050,140**	4,120,080

Investments in real estate under development represent the following:

- Real estate with net book value of KD4,053,000 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.

- During the year, the Group acquired plots of land located in Egypt for the purpose of developing a residential building. As of 31 December 2018, the net book value of this real estate under development amounted to KD981,233.

As a result of impairment testing of the carrying value of the property, the Group recognised an impairment loss of KD67,080 (31 December 2017: KD83,850). The impairment testing by management was based on fair value of the property which has been determined based on valuations obtained from independent and qualified valuers as of the date of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20 Investment properties

	Land KD	Building KD	Total KD
Cost			
1 January 2018	**1,023,750**	**1,484,989**	**2,508,739**
31 December 2018	**1,023,750**	**1,484,989**	**2,508,739**
Accumulated depreciation			
1 January 2018	**-**	**794,795**	**794,795**
Charge for the year	**-**	**58,739**	**58,739**
31 December 2018	**-**	**853,534**	**853,534**
Net book value			
At 31 December 2018	**1,023,750**	**631,455**	**1,655,205**
Fair value as at 31 December 2018	**1,638,953**	**1,029,797**	**2,668,750**
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

Land is not depreciated. Building is depreciated over 25 years. The fair value of the investment properties is determined 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).

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21 Property and equipment

31 December 2018:	Land KD	Building KD	Office equipment and computers KD	Fixtures and decoration KD	Computer software KD	Total KD
Cost						
At 1 January	1,316,250	2,000,606	627,545	419,519	1,004,455	5,368,375
Additions	-	-	36,800	96,850	19,579	153,229
Disposals	-	-	(21,258)	(1,081)	(1,088)	(23,428)
Foreign currency translation differences	-	(109)	429	275	379	974
At 31 December	1,316,250	2,000,497	643,516	515,563	1,023,325	5,499,151
Accumulated depreciation						
At 1 January	-	1,046,385	594,690	318,343	380,901	2,340,319
Charge for the year	-	80,615	23,807	46,046	209,620	360,088
Related to disposal	-	-	(20,480)	(1,009)	(868)	(22,357)
Foreign currency translation differences	-	(47)	290	220	364	827
At 31 December	-	1,126,953	598,307	363,600	590,017	2,678,877
Net book value						
At 31 December 2018	1,316,250	873,544	45,209	151,963	433,308	2,820,274

31 December 2017:	Land KD	Building KD	Office equipment and computers KD	Fixtures and decoration KD	Computer software KD	Work in progress KD	Total KD
Cost							
At 1 January	1,316,250	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

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 2018

22. Due to banks

This represents outstanding amounts of the credit facilities obtained by the Group from local and foreign banks in the form of overdraft facilities. The credit facilities carry interest rate ranging from 5.25% to 5.50% per annum (31 December 2017: 4.75% - 5.5% per annum) and payable on demand. Credit facilities are granted against pledge of certain financial assets at fair value through other comprehensive income (note 17).

23. Accounts payable and other liabilities

	31 Dec. 2018 KD	31 Dec. 2017 KD
Trade payables	**142,228**	156,552
Due to related parties	**971,561**	1,230,500
Other payables	**2,100,280**	2,339,305
Accrued interest	**117,890**	99,738
Provision for staff leave	**204,561**	171,903
KFAS payable	**226,802**	220,056
NLST and Zakat payable	**2,924,742**	2,895,374
Due to shareholders	**361,314**	361,314
	7,049,378	7,474,742

24. Term loans

The term loans have been obtained from local banks. The balance includes an amount of KD1,244,000 transferred from due to banks to term loans. Term loans carry interest rates ranging from 5.75% to 6.5% (31 December 2017: 5.75%) per annum and repayable in varoius installments ending in June 2022. Loans are repayable as follows:

	31 Dec. 2018 KD	31 Dec. 2017 KD
Within one year	**4,856,000**	3,640,000
After one year	**13,024,000**	12,740,000
	17,880,000	16,380,000

The terms loans are secured by financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and investment in associate (notes 14, 17 and 18).

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31 December 2018

25 Murabaha payable

This represents Islamic financing obtained from local and foreign financial institutions, carrying an effective profit rate of 3% to 6% (31 December 2017: 3% - 5.75%) per annum. This financing is secured by way of pledge of certain financial assets at fair value through other comprehensive income, investment properties and property and equipment (notes17, 20 and 21) and payable in various instalments ending in June 2023. Murabaha payable is due as follows:

	31 Dec. 2018	31 Dec. 2017
	KD	KD
Within one year	**856,619**	2,757,654
After one year	**3,612,500**	2,509,413
	4,469,119	5,267,067

26 Share capital and share premium

As at 31 December 2018, the authorised, issued and paid up share capital of the Parent Company consists of 802,882,556 shares of 100 fils each (31 December 2017: 802,882,556 shares). All shares are in cash.

The share premium is non distributable.

27 Treasury shares

	31 Dec. 2018	31 Dec. 2017
Number of treasury shares	**6,083,892**	6,083,892
Percentage of ownership (%)	**0.758%**	0.758%
Market value (KD)	**170,349**	179,475
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 2018

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 Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Due to banks KD	Term loans KD	Murabaha Payables KD	Total KD
Balance at 1 January 2018	**5,226,027**	**16,380,000**	**5,267,067**	**26,873,094**
Cash flows:				
• Repayment	**-**	**(3,744,000)**	**(5,047,663)**	**(8,791,663)**
• Proceeds	**37,933**	**4,000,000**	**4,250,000**	**8,287,933**
Non-cash items:				
• Transfer	**(1,244,000)**	**1,244,000**	**-**	**-**
• Foreign currency differences	**10**	**-**	**(285)**	**(275)**
31 December 2018	**4,019,970**	**17,880,000**	**4,469,119**	**26,369,089**
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

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 2018. 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 13 May 2018 approved the consolidated financial statements for the year ended 31 December 2017 without dividend. Furthermore, the general assembly approved to distribute directors' remuneration of KD42,000.

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 KD35,154,384 (31 December 2017: KD10,305,554).

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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 2018					
Total revenues	**1,918,943**	**6,810,687**	**(273,104)**	**200,475**	**8,657,001**
(Loss)/profit for the year	**(2,153,694)**	**4,976,208**	**(532,589)**	**(3,161)**	**2,286,764**
As at 31 December 2018					
Total assets	**11,910,718**	**115,104,497**	**11,607,284**	**8,318,161**	**146,940,660**
Total liabilities	**3,612,551**	**29,851,432**	**772,949**	**551,113**	**34,788,045**
Net assets	**8,298,167**	**85,253,065**	**10,834,335**	**7,767,048**	**112,152,615**
Year ended 31 December 2017					
Total revenues	1,833,143	6,745,368	(808,283)	286,788	8,057,016
(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	12,988,937	121,243,796	12,604,466	7,776,627	154,613,826
Total liabilities	3,341,236	31,033,695	780,580	367,510	35,523,021
Net assets	9,647,701	90,210,101	11,823,886	7,409,117	119,090,805

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

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. 2018 KD	31 Dec. 2017 KD
Balances included in the consolidated statement of financial position		
Instalment credit debtors-gross (note 13)	**759,723**	817,066
Due from related parties (note 15)	**798,190**	191,306
Due to shareholders (note 23)	**361,314**	361,314
Due to related parties (note 23)	**971,561**	1,230,500

	Year ended 31 Dec. 2018 KD	Year ended 31 Dec. 2017 KD
Transactions included in the consolidated statement of profit or loss		
Income from installment credit debtors	**54,888**	56,708
Interest income	**77,550**	-
General and administrative expenses	**103,163**	56,501
Key management compensation:		
Salaries and other short term benefits	**631,082**	554,217
End of service benefits	**52,681**	47,823
Board of directors' remuneration	**42,000**	-
Board committee remuneration	**22,200**	-

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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. 2018	31 Dec. 2017
	KD	KD
US Dollar	**29,772,152**	24,720,979
Lebanese Lira	**7,950,216**	7,300,044
GBP	**5,148,890**	6,433,989
Egyptian Pound	**1,949,762**	1,282,388
UAE Dirham	**72,962**	148,612
Saudi Riyal	**(8,458)**	(8,458)
Euro	**3,716,694**	6,896,478
Omani Riyal	**54,110**	54,085
Jordanian Dinar	**862,801**	872,939

The following table details the Group's sensitivity to a 2% (2017: 2%) increase and decrease in the KD against above foreign currencies. The sensitivity analysis includes only outstanding foreign currencies denominated monetary assets and liabilities and adjusts their translation at the year-end for a 2% change in foreign currency rates. A positive number below indicates an increase in profit and equity and a negative number indicates decrease in profit and equity. All other variables are held constant. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

	+2% Impact	+2% Impact	**-2% Impact**	-2% Impact
	31 Dec. 2018	31 Dec. 2017	**31 Dec. 2018**	31 Dec. 2017
	KD	KD	**KD**	KD
Profit for the year	**314,905**	227,886	**(314,905)**	(227,886)
Equity	**682,258**	730,936	**(682,258)**	(730,936)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 2018 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	7,414,427	2,959,626	-	10,374,053	-	-	10,374,053	1.35%
Instalment credit debtors	590,264	337,601	2,253,948	3,181,813	4,722,542	-	7,904,355	25%-8%
Financial assets at fair value through profit or loss	-	-	-	-	-	9,847,774	9,847,774	-
Accounts receivable and other assets	-	-	-	-	-	4,191,835	4,191,835	-
	8,004,691	3,297,227	2,253,948	13,555,866	4,722,542	14,039,609	32,318,017	
Liabilities								
Due to banks	4,019,970	-	-	4,019,970	-	-	4,019,970	5.25%-5%
Accounts payable and other liabilities	-	-	-	-	-	7,049,378	7,049,378	-
Term loans	-	1,014,000	3,842,600	4,856,000	13,024,000	-	17,880,000	6%-6.5%
Murabaha payable	-	537,869	318,750	856,619	3,612,500	-	4,469,119	3%-6%
Provision for employees' end of service benefits	-	-	-	-	-	1,369,578	1,369,578	-
	4,019,970	1,551,869	4,161,350	9,732,589	16,636,500	8,418,956	34,788,045	

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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 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%
Financial assets at fair value through profit or loss	-	-	-	-	-	7,905,472	7,905,472	-
Accounts receivable and other assets	-	-	-	-	-	5,135,927	5,135,927	-
	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	-	-	-	-	-	7,474,742	7,474,742	5.50%
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	

The following table illustrates the sensitivity of the result for the year to a reasonably possible change in interest rates of +1% and –1% (2017: +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. 2018		31 Dec. 2017	
	+ 1% KD	**-1% KD**	+ 1% KD	- 1% KD
Results for the year	**(80,907)**	**80,907**	(101,359)	101,359

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

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

c) Price risk

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 2018 and 2017 would have been as follows:

	Profit for the year		Equity	
	31 Dec. 2018 KD	31 Dec. 2017 KD	**31 Dec. 2018 KD**	31 Dec. 2017 KD
Financial assets at fair value through profit or loss	**±984,777**	±790,547	**-**	-
Financial assets at fair value through other comprehensive income			**±7,659,694**	-
Available for sale investments	**-**	-	**-**	±8,646,676

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. 2018 KD	31 Dec. 2017 KD
Cash and cash equivalents	**10,374,053**	7,805,543
Instalment credit debtors	**7,904,355**	8,931,619
Financial assets at fair value through profit or loss (note 14)	**6,698,246**	6,962,467
Financial assets at fair value through other comprehensive income	**22,524,729**	-
Available for sale investments	**-**	30,983,319
Accounts receivable and other assets	**4,191,835**	5,135,927
Total	**51,693,218**	59,818,875

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31 December 2018

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 2018						
Cash and cash equivalents	**2,993,462**	**2,997,024**	**4,376,535**	**-**	**7,032**	**10,374,053**
Instalment credit debtors	**1,641,296**	**-**	**6,263,059**	**-**	**-**	**7,904,355**
Financial assets at fair value through profit or loss	**7,192,074**	**1,998,196**	**221,427**	**-**	**436,077**	**9,847,774**
Accounts receivable and other assets	**2,554,412**	**336,905**	**1,300,518**	**-**	**-**	**4,191,835**
Properties held for trading	**-**	**1,023,280**	**-**	**-**	**-**	**1,023,280**
Financial assets at fair value through other comprehensive income	**40,996,678**	**7,255,603**	**324,229**	**9,136,612**	**18,883,815**	**76,596,937**
Investment in associates	**27,476,807**	**-**	**-**	**-**	**-**	**27,476,807**
Investment in real estate under development	**4,068,906**	**-**	**981,234**	**-**	**-**	**5,050,140**
Investment properties	**1,655,205**	**-**	**-**	**-**	**-**	**1,655,205**
Property and equipment	**2,738,298**	**997**	**80,979**	**-**	**-**	**2,820,274**
Total	**91,317,138**	**13,612,005**	**13,547,981**	**9,136,612**	**19,326,924**	**146,940,660**
At 31 December 2017						
Cash and cash equivalents	2,234,712	662,939	4,904,551	-	3,341	7,805,543
Installment credit debtors	2,517,442	-	6,414,177	-	-	8,931,619
Financial assets at fair value through profit or loss	7,361,041	55,669	5,344	-	483,418	7,905,472
Accounts receivable and other assets	1,864,163	1,892,182	1,379,582	-	-	5,135,927
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

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 2018:

	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	7,414,427	2,959,626	-	10,374,053	-	10,374,053
Installment credit debtors	590,264	337,601	2,253,948	3,181,813	4,722,542	7,904,355
Financial assets at fair value through profit or loss	9,847,774	-	-	9,847,774	-	9,847,774
Accounts receivable and other assets	745,843	223,247	3,222,745	4,191,835	-	4,191,835
Properties held for trading	-	-	1,023,280	1,023,280	-	1,023,280
Financial assets at fair value through other comprehensive income	-	-	-	-	76,596,937	76,596,937
Investment in associates	-	-	-	-	27,476,807	27,476,807
Investment in real estate under development	-	-	-	-	5,050,140	5,050,140
Investment properties	-	-	-	-	1,655,205	1,655,205
Property and equipment	-	-	-	-	2,820,274	2,820,274
Total assets	18,598,308	3,520,474	6,499,973	28,618,755	118,321,905	146,940,660
LIABILITIES						
Due to banks	4,019,970	-	-	4,019,970	-	4,019,970
Accounts payable and other liabilities	448,581	644,093	3,065,620	4,158,294	2,891,084	7,049,378
Term loans	-	1,014,000	3,842,000	4,856,000	13,024,000	17,880,000
Murabaha payable	-	537,869	318,750	856,619	3,612,500	4,469,119
Provision for employees' end of service benefits	-	-	-	-	1,369,578	1,369,878
Total liabilities	4,468,551	2,195,962	7,226,370	13,890,883	20,897,162	34,788,045

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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34 Risk management objectives and policies (continued)
34.4 Liquidity risk (continued)

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
Financial assets 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	3,676,144	5,135,927	-	5,135,927
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	3,790,831	4,614,189	2,860,553	7,474,742
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 2018

34 Risk management objectives and policies (continued)
34.4 Liquidity risk (continued)

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

31 December 2018 Financial liabilities	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
Due to banks	**4,231,019**	**-**	**-**	**4,231,019**	**-**	**4,231,019**
Accounts payable and other liabilities	**448,581**	**644,093**	**3,065,620**	**4,158,294**	**2,891,084**	**7,049,378**
Term loans	**-**	**1,078,220**	**4,082,660**	**5,160,800**	**13,840,030**	**19,000,910**
Murabaha payable	**-**	**112,625**	**781,580**	**894,205**	**3,829,250**	**4,723,455**
Provision for employees' end of service benefits	**-**	**-**	**-**	**-**	**1,369,578**	**1,369,578**
	4,679,600	**1,834,938**	**7,929,860**	**14,444,398**	**21,929,942**	**36,374,340**

31 December 2017 Financial liabilities	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
Due to banks	5,491,683	-	-	5,491,683	-	5,491,683
Accounts payable and other liabilities	312,479	510,879	3,790,831	4,614,189	2,860,553	7,474,742
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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).

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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. 2018 KD	31 Dec. 2017 KD
Financial assets:		
At amortised cost:		
Cash and cash equivalents	**10,374,053**	7,805,543
Installments credit debtors	**7,904,355**	8,931,619
Accounts receivable and other assets	**4,191,835**	5,135,927
At fair value		
Financial assets at fair value through profit or loss	**9,847,774**	7,905,472
Financial assets at fair value through other comprehensive income	**76,596,937**	-
Available for sale investments:		
Available for sale investments – at fair value	**-**	74,738,343
Available for sale investments – at cost	**-**	11,728,416
Total	**108,914,954**	116,245,320
Financial liabilities:		
At amortised cost:		
Due to banks	**4,019,970**	5,226,027
Accounts payable and other liabilities	**7,049,378**	7,474,742
Term loans	**17,880,000**	16,380,000
Murabaha payable	**4,469,119**	5,267,067
Provision for employees' end of service benefits	**1,369,578**	1,175,185
Total	**34,788,045**	35,523,021

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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 2018				
Financial assets at fair value through profit or loss:				
Local quoted shares	**929,905**	**-**	**-**	**929,905**
Foreign quoted shares	**221,427**	**-**	**-**	**221,427**
Investment in managed portfolios	**6,698,246**	**-**	**-**	**6,698,246**
Foreign unquoted shares	**-**	**-**	**1,998,196**	**1,998,196**
Financial assets at fair value through other comprehensive income:				
Local quoted shares	**5,146,295**	**-**	**-**	**5,146,295**
Local unquoted shares	**-**	**-**	**13,325,654**	**13,325,654**
Foreign unquoted shares	**-**	**-**	**28,981,411**	**28,981,411**
Investment in managed portfolios	**11,061,990**	**-**	**11,214,000**	**22,275,990**
Debit instruments	**-**	**-**	**6,618,848**	**6,618,848**
Investment funds	**-**	**248,739**	**-**	**248,739**
	24,057,863	**248,739**	**62,138,109**	**86,444,711**
31 December 2017				
Financial assets 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	-	-	19,857,272	19,857,272
Investment in managed portfolios	19,451,917	-	11,338,600	30,790,517
Debt instruments	-	-	5,038,524	5,038,524
Investment funds	-	192,802	-	192,802
	33,491,349	192,802	48,959,664	82,643,815

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

35 Fair value measurement (continued)
35.2 Fair value measurement of financial instruments (continued)

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.

Financial assets in level 3:
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:

a) 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 2.5%. 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.

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

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 2018

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. 2018 KD	31 Dec. 2017 KD
Opening balance	**48,959,664**	35,457,471
Change in fair value	**(976,440)**	1,432,992
Sales	**(2,893,542)**	(73,413)
Purchases	**17,048,427**	978,379
Arising from liquidation and loss of control of subsidiaries	**-**	11,164,235
Closing balance	**62,138,109**	48,959,664

Non-financial instruments
Investment properties were fair valued at 31 December 2018 and are classified under level 3 fair value hierarchy and reconciliation is provided in note 20.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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. 2018	31 Dec. 2017
	KD	KD
Due to banks (note 22)	**4,019,970**	5,226,027
Term loans (note 24)	**17,880,000**	16,380,000
Murabaha payable (note 25)	**4,469,119**	5,267,067
Less: Cash and cash equivalents (note 12)	**(10,374,053)**	(7,805,543)
Net debt	**15,995,036**	19,067,551
Equity	**112,152,615**	119,090,805
Net debt to equity ratio	**14.26%**	16.01%

37 Subsequent event

Subsequent to the date of these consolidated financial statements, the Parent Company's Board of Directors has initially approved the proposal to division of the Parent Company into two companies by transferring assets from the Parent Company to the new company. The Parent Company will continue to conduct all of its current activities and the activity of the new company will be a holding company. Each shareholder in the Parent Company will have a stake in both companies.

As of the reporting date, neither the assets to be transferred nor the capital of both companies have been determined and the approval of the shareholders and authorities have not yet been obtained for the purpose of this division.

38 Capital commitments

At the date of the consolidated statement of financial position, the Group had capital commitments amounting to KD282,396 for real estate under development.

39 Comparative amounts

Certain other comparative amounts have been reclassified to conform to the presentation in the current year, and such reclassification does not affect previously reported net assets, net equity and net results for the year.