

**The Securities House K.S.C.P. and Subsidiaries  
Kuwait**

**Consolidated Financial Statements and Independent Auditor's Report  
31 December 2017**

**C o n t e n t s**

	<b>Page</b>
Independent Auditor's Report	1 - 3
Consolidated Statement of Income	4
Consolidated Statement of Comprehensive Income	5
Consolidated Statement of Financial Position	6
Consolidated Statement of Cash Flows	7
Consolidated Statement of Changes in Equity	8
Notes to the Consolidated Financial Statements	9 - 28

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE SECURITIES HOUSE K.S.C.P.**

### **Report on the Audit of the Consolidated Financial Statements**

#### **Opinion**

We have audited the consolidated financial statements of The Securities House K.S.C.P. ("the Parent Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by 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 other 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 period. 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. For each matter below, our description of how our audit addressed that matter is provided in that context.

##### *Indication of impairment of investment in associates*

Investment in associates are the most significant asset of the Group. Under IFRS, the Group is required to determine whether it is necessary to recognise any impairment loss on the Group's investment in its associates at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. Such determination and that of the amount of impairment loss, if any, are significant to our audit because they require considerable judgment on the part of management. Therefore, we identified the assessment of associates for impairment and testing it for that, if any, as a key audit matter. The Group's policy on assessing impairment on associates is in note 2.8 to the consolidated financial statements.

As part of our audit procedures, we assessed the objective evidence that management used to determine if investments in associates are impaired and the key inputs forming the basis of such assessment. For this purpose, we assessed whether there are one or more loss events that has occurred, which has an impact on the estimated cash flows of the associate that can be reliably estimated and whether there is observable data about loss events.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE SECURITIES HOUSE K.S.C.P  
(Continued)

**Other information**

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Group for the year ended 31 December 2017. The other information does not include 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 Group's Annual Report for the year ended 31 December 2017 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 by 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.

**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 the management.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE SECURITIES HOUSE K.S.C.P (Continued)

- 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.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

### Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of accounts 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 the information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations 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 No. 1 of 2016 and its Executive Regulations or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2017 that might have had a material effect on the business of the Parent Company or on its consolidated financial position.

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 organization of banking business, and its related regulations, and the provisions of Law No. 7 of 2010, concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2017 that might have had a material effect on the business of the Parent Company or on its consolidated financial position.



**Bader A. Al Wazzan**  
**Licence No. 62A**  
**Deloitte & Touche**  
**Al-Wazzan & Co.**

Kuwait  
18 March 2018

**The Securities House K.S.C.P. and Subsidiaries  
Kuwait**

**Consolidated Statement of Income - For the year ended 31 December 2017**

	Notes	Kuwaiti Dinars	
		2017	2016
<b>INCOME</b>			
<b>From investment activities</b>			
Realised (loss)/gain on sale of financial assets at fair value through income statement		<b>(27,659)</b>	9,596
Realised loss on sale of financial assets available for sale		<b>(26,944)</b>	(1,069)
Dividend income and return on murabaha receivables		<b>119,763</b>	172,142
Realised gain on sale of investment in associates	8 (b)	-	955,289
Unrealised gain on financial assets at fair value through income statement	6	<b>413,563</b>	40,609
Impairment loss on financial assets available for sale	7	-	(108,464)
Management fee income	15	<b>27,289</b>	51,313
Other income/(loss)		<b>72,533</b>	(125,389)
<b>Total income</b>		<b>578,545</b>	994,027
<b>EXPENSES</b>			
Staff costs		<b>649,093</b>	674,850
General and administrative expenses		<b>301,564</b>	359,998
Depreciation		<b>47,158</b>	-
<b>Total expenses</b>		<b>997,815</b>	1,034,848
<b>Loss before share of results, goodwill and taxation</b>		<b>(419,270)</b>	(40,821)
Share of results of associates	8	<b>137,394</b>	287,901
Recognition of negative goodwill of investment in associate	8 (a)	<b>304,585</b>	538,545
Contribution to Kuwait Foundation of Advancement of Sciences		-	(5,692)
National Labour Support Tax (NLST)		<b>(1,081)</b>	(16,891)
Zakat		<b>(49)</b>	(6,520)
<b>Profit for the year</b>		<b>21,579</b>	756,522
<b>Attributable to:</b>			
Equity holders of the Parent Company		<b>22,126</b>	757,624
Non-controlling interests		<b>(547)</b>	(1,102)
<b>Profit for the year</b>		<b>21,579</b>	756,522
<b>Basic and diluted earnings per share attributable to equity holders of the Parent Company</b>	4	<b>0.0 Fils</b>	1.5 Fils

The accompanying notes form an integral part of these consolidated financial statements.

**The Securities House K.S.C.P. and Subsidiaries  
Kuwait**

**Consolidated Statement of Comprehensive Income - For the year ended 31 December 2017**

	Notes	Kuwaiti Dinars	
		2017	2016
<b>Profit for the year</b>		<b>21,579</b>	756,522
<b>Other comprehensive income/(loss)</b>			
<i>Other comprehensive income/(loss) to be reclassified to consolidated statement of income in subsequent periods:</i>			
Foreign currency translation adjustment		<b>2,723,292</b>	(6,127,305)
Share of other comprehensive income of associates	8	<b>107,913</b>	207,452
Reclassified to income statement on sale of investment in associates	8 (b)	-	299,457
<b>Other comprehensive income/(loss) for the year</b>		<b>2,831,205</b>	(5,620,396)
<b>Total comprehensive income/(loss) for the year</b>		<b>2,852,784</b>	(4,863,874)
<b>Attributable to:</b>			
Equity holders of the Parent Company		<b>2,853,331</b>	(4,862,772)
Non-controlling interests		<b>(547)</b>	(1,102)
		<b>2,852,784</b>	(4,863,874)

The accompanying notes form an integral part of these consolidated financial statements.

**The Securities House K.S.C.P. and Subsidiaries  
Kuwait**

**Consolidated Statement of Financial Position as at 31 December 2017**

	Notes	Kuwaiti Dinars	
		2017	2016
<b>ASSETS</b>			
Bank balances and cash	5	<b>1,846,705</b>	1,794,237
Short-term murabaha investments	5	<b>550,000</b>	2,926,358
Accounts receivable and prepayments		<b>158,234</b>	373,968
Financial assets at fair value through income statement	6	<b>2,626,596</b>	2,475,298
Financial assets available for sale	7	<b>2,042,985</b>	409,274
Investment in associates	8	<b>41,076,933</b>	37,781,187
Property and equipment		<b>168,000</b>	215,158
<b>TOTAL ASSETS</b>		<b>48,469,453</b>	45,975,480
<b>EQUITY</b>			
Share capital	9	<b>48,000,000</b>	48,000,000
Statutory reserve	9	<b>80,999</b>	78,673
Foreign currency translation reserve		<b>(2,513,684)</b>	(5,236,976)
Cumulative changes in equity of associates		<b>(158,889)</b>	(266,802)
Retained earnings		<b>698,751</b>	678,951
<b>Equity attributable to equity holders of the Parent Company</b>		<b>46,107,177</b>	43,253,846
Non-controlling interests		<b>10,674</b>	11,345
<b>TOTAL EQUITY</b>		<b>46,117,851</b>	43,265,191
<b>LIABILITIES</b>			
Accounts payable and accruals		<b>2,152,495</b>	2,641,193
Employees' end of service benefits		<b>199,107</b>	69,096
<b>TOTAL LIABILITIES</b>		<b>2,351,602</b>	2,710,289
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>48,469,453</b>	45,975,480

The accompanying notes form an integral part of these consolidated financial statements.

  
Ibrahim Youssef Al Ghanim  
Chairman

  
Fahed Faisal Boodai  
Vice Chairman and Chief Executive officer



**Consolidated Statement of Cash Flows – For the year ended 31 December 2017**

	Notes	Kuwaiti Dinars	
		2017	2016
<b>OPERATING ACTIVITIES</b>			
Profit for the year		<b>21,579</b>	756,522
Adjustments for:			
Realised loss/(gain) on sale of financial assets at fair value through income statement		<b>27,659</b>	(9,596)
Realised loss on sale of financial assets available for sale		<b>26,944</b>	1,069
Dividend income and return on murabaha receivables		<b>(119,763)</b>	(172,142)
Realised gain on sale of investment in associates	8 (b)	-	(955,289)
Share of results of associates	8	<b>(137,394)</b>	(287,901)
Unrealised gain on financial assets at fair value through income statement	6	<b>(413,563)</b>	(40,609)
Impairment loss on financial assets available for sale	7	-	108,464
Negative goodwill of associates	8 (a)	<b>(304,585)</b>	(538,545)
Depreciation		<b>47,158</b>	-
Provision for employees' end of service benefits		<b>132,933</b>	43,248
		<b>(719,032)</b>	(1,094,779)
<i>Change in operating assets and liabilities:</i>			
Accounts receivable and prepayments		<b>(34,767)</b>	1,805,867
Financial assets at fair value through income statement		<b>234,606</b>	(554,755)
Accounts payable and accruals		<b>(238,197)</b>	91,007
Cash (used in)/ from operations		<b>(757,390)</b>	247,340
Employees' end of service benefits paid		<b>(2,922)</b>	-
<b>Net cash flows (used in)/from operating activities</b>		<b>(760,312)</b>	247,340
<b>INVESTING ACTIVITIES</b>			
Investment in murabaha receivables		-	(1,614,020)
Collection of murabaha receivables		-	1,614,020
Purchase of financial assets available for sale		<b>(2,134,745)</b>	(30,190)
Proceeds from sale of financial assets available for sale		<b>474,090</b>	2,409,107
Purchase of an investment in an associate	8 (a)	<b>(22,562)</b>	(389,038)
Purchase of interests in subsidiaries		-	(35,000)
Dividend income and return on murabaha receivables received		<b>119,763</b>	172,142
Dividends received from an associate	8	-	415,000
Purchase of property and equipment		-	(215,158)
<b>Net cash flows (used in)/from investing activities</b>		<b>(1,563,454)</b>	2,326,863
<b>FINANCING ACTIVITIES</b>			
Payment of capital reduction	9	-	(4,254,250)
Non-controlling interests share in capital reduction of a subsidiary	3	-	(125,000)
Net movement on non-controlling interests		<b>(124)</b>	5,515
<b>Net cash flows used in financing activities</b>		<b>(124)</b>	(4,373,735)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(2,323,890)</b>	(1,799,532)
Cash and cash equivalents at 1 January		<b>4,720,595</b>	6,520,127
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	5	<b>2,396,705</b>	4,720,595

The accompanying notes form an integral part of these consolidated financial statements.

The Securities House K.S.C.P. and Subsidiaries  
Kuwait

Consolidated Statement of Changes in Equity – For the year ended 31 December 2017

	Kuwaiti Dinars							Total equity	
	Attributable to equity holders of the Parent Company								
	Share capital	Statutory reserve	Foreign currency translation reserve	Treasury shares	Cumulative changes in equity of associates	Retained earnings	Sub-total		
As at 1 January 2017	48,000,000	78,673	(5,236,976)	-	(266,802)	678,951	43,253,846	11,345	43,265,191
Profit for the year	-	-	-	-	-	22,126	22,126	(547)	21,579
Other comprehensive income	-	-	2,723,292	-	107,913	-	2,831,205	-	2,831,205
Total comprehensive income for the year	-	-	2,723,292	-	107,913	22,126	2,853,331	(547)	2,852,784
Transfer to reserves	-	2,326	-	-	-	(2,326)	-	-	-
Net movement on non-controlling interests	-	-	-	-	-	-	-	(124)	(124)
Non-controlling interests share in capital reduction of a subsidiary	-	-	-	-	-	-	-	-	-
<b>As at 31 December 2017</b>	<b>48,000,000</b>	<b>80,999</b>	<b>(2,513,684)</b>	<b>-</b>	<b>(158,889)</b>	<b>698,751</b>	<b>46,107,177</b>	<b>10,674</b>	<b>46,117,851</b>
As at 1 January 2016	68,000,000	-	627,158	(11,982,322)	(510,540)	(8,104,229)	52,370,868	189,450	52,560,318
Profit for the year	-	-	-	-	-	757,624	757,624	(1,102)	756,522
Other comprehensive (loss)/income	-	-	(5,864,134)	-	243,738	-	(5,620,396)	-	(5,620,396)
Total comprehensive (loss)/income for the year	-	-	(5,864,134)	-	243,738	757,624	(4,862,772)	(1,102)	(4,863,874)
Cancellation of treasury shares	(2,550,000)	-	-	11,982,322	-	(5,091,521)	-	-	-
Write-off of accumulated losses	(13,195,750)	-	-	-	-	13,195,750	-	-	-
Reduction of share capital	(4,254,250)	-	-	-	-	-	(4,254,250)	-	(4,254,250)
Transfer to reserves	-	78,673	-	-	-	(78,673)	-	-	-
Non-controlling interests share in capital reduction of a subsidiary	-	-	-	-	-	-	-	(125,000)	(125,000)
Purchase of interests in subsidiaries from non-controlling interests and other movements	-	-	-	-	-	-	-	(52,003)	(52,003)
<b>As at 31 December 2016</b>	<b>48,000,000</b>	<b>78,673</b>	<b>(5,236,976)</b>	<b>-</b>	<b>(266,802)</b>	<b>678,951</b>	<b>43,253,846</b>	<b>11,345</b>	<b>43,265,191</b>

The accompanying notes form an integral part of these consolidated financial statements.

## **1. CORPORATE INFORMATION AND ACTIVITIES**

The consolidated financial statements of The Securities House K.S.C.P. (the "Parent Company") and subsidiaries (collectively the "Group") for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 18 March 2018. The shareholders of the Parent Company have the power to amend these consolidated financial statements at the annual general assembly.

The Parent Company is a Kuwaiti public shareholding company incorporated and registered in Kuwait on 28 March 1982 and is engaged in dealing and brokerage in securities on its behalf and on behalf of third parties, underwriting and sale of third party-issued securities, investment trust and investment monitoring, providing financial advisory and research services, establishing financial, real estate, industrial and multipurpose investment funds and companies, fund management on behalf of third parties, investment in real estate and other economic sectors, finance activities and mediation in borrowing and international trade activities. The Parent Company performs all of its activities in accordance with Islamic Shariah principles and is regulated by the Central Bank of Kuwait (CBK) and the Capital Markets Authority (CMA) as an investment company.

The Parent Company's principal place of business and registered address is 18<sup>th</sup> floor, Al-Dhow Tower, Khalid Ibn Al-Waleed Street, Sharq, P. O. Box 26972 Safat, 13130, Kuwait.

## **2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**

### **2.1 Basis of preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use by the State of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all IFRS except for the International Accounting Standard (IAS) 39: Financial Instruments: Recognition and Measurement' requirement for collective provision, which has been replaced by the CBK's requirement for a minimum general provision as described under the accounting policies for impairment and un-collectability of financial assets

The consolidated financial statements have been prepared under the historical cost basis except for the measurement at fair value of financial assets classified as fair value through profit or loss, or financial assets classified as available for sale.

The consolidated financial statements are presented in Kuwaiti Dinars (KD), which is the functional currency of the Parent Company.

### **2.2 New and revised accounting standards**

The following IFRS have been issued but are not yet effective and have not been early adopted by the Group. The Group intends to adopt them when they become effective.

IFRS 9 'Financial Instruments':

IFRS 9 'Financial Instruments' replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 impacts the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

The primary impact on the Group relates to the provisioning for future credit losses on its financial assets and the requirement of certain additional disclosures.

The Group will adopt IFRS 9 from the effective date of 1 January 2018, apply it retrospectively and recognize on that date any difference between the previous carrying amount and the carrying amount as at 1 January 2018 in opening retained earnings. The Group will not restate prior periods.

Based on currently available information, the Group does not expect the adoption and application of IFRS 9 to have a material impact on the Group. This is subject to changes as the Group is continuing to analyze that and will disclose the actual impact in its annual consolidated financial statements as of 31 December 2018 that includes the effects of its application from the effective date.

#### IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers', effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognizing revenue arising from contracts with customers and establishes a five-step model for that. Under IFRS 15, revenue will be recognized as goods and services are transferred, to the extent that the transferor anticipates entitlement to consideration in exchange for those goods and services. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Group will adopt IFRS 15 from the effective date of 1 January 2018 and apply the cumulative effect approach by retrospectively adjusting retained earnings on 1 January 2018. The Group will not restate prior periods.

Based on currently available information, the Group does not expect the adoption and application of IFRS 15 to have a material impact on the Group. This is subject to changes as the Group is continuing to analyze that and will disclose the actual impact in its annual consolidated financial statements as of 31 December 2018 that includes the effects of its application from the effective date.

#### IFRS 16 'Leases'

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

IFRS 16 does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their consolidated statement of financial position as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the consolidated statement of profit or loss.

Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Other new standards or amendments to existing standards are not expected to have a material impact on the consolidated financial statements of the Group.

### **2.3 Business combinations**

A business combination is the bringing together of separate entities or businesses into one reporting entity as a result of one entity, the acquirer, obtaining control of one or more other businesses. The acquisition method of accounting is used to account for business combinations. The consideration transferred for the acquisition is measured as the fair values of the assets given, equity interests issued and liabilities incurred or assumed at the date of the exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The acquisition related costs are expensed when incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination (net assets acquired in a business combination) are measured initially at their fair values at the acquisition date. Non-controlling interest in the subsidiary acquired is recognized at the non-controlling interest's proportionate share of the acquiree's net assets.

When a business combination is achieved in stages, the previously held equity interest in the acquiree is re-measured at its acquisition-date fair value and the resulting gain or loss is recognized in the consolidated statement of income. The fair value of the equity of the acquiree at the acquisition date is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

The Group separately recognizes contingent liabilities assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably.

An indemnification received from the seller in a business combination for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability that is recognized at the acquisition date at its acquisition-date fair value is recognized as an indemnification asset at the acquisition-date fair value.

The Group uses provisional values for the initial accounting of a business combination and recognizes any adjustment to these provisional values within the measurement period which is twelve months from the acquisition date.

## **2.4 Consolidation**

The Group consolidates the financial statements of the Parent Company and subsidiaries (i.e. investees that it controls) and investees controlled by its subsidiaries.

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- Voting rights and potential voting rights;

The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis, from the date on which control is transferred to the Group until the date that control ceases.

Non-controlling interest in an acquiree is stated at the non-controlling interest's proportionate share in the recognized amounts of the acquiree's identifiable net assets at the acquisition date and the non-controlling interest's share of changes in the equity since the date of the combination. Total comprehensive income is attributed to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Changes in the Group's ownership interest in a subsidiary that do not result in loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiary and any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Parent Company's shareholders. Non-controlling interest is presented separately in the consolidated statements of financial position and income. The non-controlling interests are classified as a financial liability to the extent there is an obligation to deliver cash or another financial asset to settle the non-controlling interest.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on financial statements of subsidiaries as on the same reporting date of the Parent Company. Intra group balances, transactions, income, expenses and dividends are eliminated in full. Profits and losses resulting from intra group transactions that are recognized in assets are eliminated in full. Intra group losses that indicate an impairment is recognized in the consolidated financial statements.

When the Parent Company loses control of a subsidiary, it derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost as well as related non-controlling interests. Any investment retained is recognized at fair value at the date when control is lost. Any resulting difference along with amounts previously directly recognized in equity is transferred to the consolidated statement of income.

## **2.5 Financial Instruments**

### **Classification**

In the normal course of business the Group uses financial instruments, principally bank balances and cash, short term murabaha investments, accounts receivables, investments and accounts payables. In accordance with International Accounting Standard (IAS) 39, the Group classifies financial assets as "at fair value through profit or loss", "loans and receivables" or "available for sale". All financial liabilities are classified as "other than at fair value through profit or loss".

### **Recognition/derecognition**

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is derecognized when the contractual rights to receive cash flows from the financial asset has expired or the Group has transferred substantially all risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where 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 recognition of a new liability.

All regular way purchase and sale of financial assets are recognized using settlement date accounting. Changes in fair value between the trade date and settlement date are recognized in the consolidated statement of income or in the consolidated statement of comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

### **Measurement**

#### *Financial instruments*

All financial assets or financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue are added except for those financial instruments classified as "at fair value through profit or loss".

#### *Financial assets at fair value through profit or loss*

Financial assets classified as "at fair value through profit or loss" are divided into two sub categories: financial assets held for trading, and those designated at fair value through statement of profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented risk management or investment strategy. Derivatives are classified as "held for trading" unless they are designated as hedges and are effective hedging instruments.

#### *Loans and receivables*

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured and carried at amortised cost using the effective yield method.

#### *Financial assets Available for sale*

These are non-derivative financial assets not included in any of the above classifications and principally acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These are subsequently measured and carried at fair value and any resultant gains or losses are recognized in the consolidated statement of comprehensive income. When the "available for sale" asset is disposed of or impaired, the related accumulated fair value adjustments are transferred to the consolidated statement of income as gains or losses.

#### *Financial liabilities/equity*

Financial liabilities "other than at fair value through profit or loss" are subsequently measured and carried at amortized cost using the effective yield method. Equity interests are classified as financial liabilities if there is a contractual obligation to deliver cash or another financial asset.

#### *Financial guarantees*

Financial guarantees are subsequently measured at the higher of the amount initially recognized less any cumulative amortization and the best estimate of the present value of the amount required to settle any financial obligation arising as a result of the guarantee.

### **Impairment**

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of similar assets may be impaired. If such evidence exists, the asset is written down to its recoverable amount. The recoverable amount of an interest bearing instrument is determined based on the net present value of future cash flows discounted at original effective interest rates; and of an equity instrument is determined with reference to market rates or appropriate valuation models. Any impairment loss is recognised in the consolidated statement of income. For "available for sale" equity investments, reversals of impairment losses are recorded as increases in fair valuation reserve through equity.

Financial assets are written off when there is no realistic prospect of recovery.

#### *General provision*

In accordance with the CBK instructions, a minimum general provision of 1% is made on all applicable cash credit facilities (net of certain categories of collateral) that are not provided for specifically.

### **Offsetting financial assets and financial liabilities**

Financial assets and financial liabilities are offset and reported on a net basis in the accompanying consolidated statement of financial position when a legally enforceable right to set off such amounts exists and when the Group intends to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

## **2.6 Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

- i) Gain or losses on sale of investments are recognised when the risks and rewards are transferred to the buyer.
- ii) Dividend income is recognised when the right to receive payment is established.
- iii) Management fee income is recognised when services are rendered.

## **2.7 Fair value measurement**

Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.
- The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

**Notes to the Consolidated Financial Statements - 31 December 2017**

---

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 - inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and.

Level 3 - inputs are unobservable inputs for the asset or liability.

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

For investments in equity instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost less impairment.

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

## **2.8 Investment in associates**

An associate is an entity over which the Group exerts significant influence. Investment in associates is accounted for, under the equity method of accounting. Where an associate is acquired and held exclusively for resale, it is accounted for as a non-current asset held for resale under IFRS 5.

Under the equity method, the investment in associates is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associates' net assets. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The Group recognises in the consolidated statement of income its share of the total recognised profit or loss of the associate from the date that influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in Group's share in the associate arising from changes in the associate's equity that have not been recognised in the associate's profit or loss statement. The Group's share of those changes is recognised in the consolidated statement of income and comprehensive income.

Unrealised gains on transactions with associates are eliminated to the extent of the Group's share in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.



An assessment is made at each statement of financial position date to determine whether there is objective evidence that an associate may be impaired. If such evidence exists, it is tested for impairment as a single asset, including goodwill, by comparing its recoverable amount (being the higher of its value in use and its fair value less cost to sell) with its carrying amount. Any impairment loss is recognized in the consolidated statement of income and forms part of its carrying amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

In determining the value in use, the Group estimates, (a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

## **2.9 Property and equipment**

Equipment is carried at cost less accumulated depreciation and impairment losses. The cost of equipment is depreciated on a straight- line basis over an estimated useful life of years as follows:

- Decor and fixtures                      5 years
- Furniture                                      5 years

The carrying amount of equipment is reviewed at each statement of financial position date to determine whether there is any indication of impairment in its carrying value. If any such indication exists, an impairment loss is recognised in the statement of profit or loss, being the difference between carrying value and the asset's recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. The residual value, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

## **2.10 Cash and cash equivalents**

For purposes of the consolidated statement of cash flows, cash and cash equivalents include bank balances and cash and short-term murabaha investments that are readily convertible to known amounts of cash with original maturities up to three months from the date of acquisition and that are subject to an insignificant risk of change in value.

## **2.11 Post-employment benefits**

The Group is liable under Kuwait Labour Law to make payments under defined benefit plans to employees at cessation of employment. The defined benefit plan is unfunded and is based on the liability that would arise on involuntary termination of all employees on the reporting date. This basis is considered to be a reliable approximation of the present value of this liability.

## **2.12 Foreign currencies**

Foreign currency transactions are recorded at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities in foreign currencies outstanding at the year-end are translated into Kuwaiti Dinars at rates of exchange ruling at the reporting date. Any resultant gains or losses are taken to the consolidated statement of income.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Translation difference on non-monetary items classified as "at fair value through profit or loss" are reported as part of the fair value gain or loss in the consolidated statement of income whereas, those on non-monetary items classified as "available for sale" financial assets are included in consolidated statement of income and comprehensive income.

The income and cash flow statements of foreign operations are translated into the Parent Company's reporting currency at average exchange rates for the year and their statement of financial position is translated at exchange rates ruling at the year-end. Exchange differences arising from the translation of the net investment in foreign operations (including goodwill) are taken to the consolidated statement of comprehensive income. When a foreign operation is sold, any resultant exchange differences are recognized in the consolidated statement of income as part of the gain or loss on sale.

### **2.13 Treasury shares**

The Parent Company's holding in its own shares is stated at acquisition cost and is recognised in equity. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in the equity. When the treasury shares are sold or cancelled, gains are credited to a separate account in equity, "treasury shares reserve", which is not distributable until all the treasury shares are disposed. 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 statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. These shares are not entitled to any cash dividend. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

### **2.14 Contingencies**

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefit is probable. Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

### **2.15 Zakat**

Zakat is calculated and paid at 1.0% of the profit of the Group in accordance with the Law No. 46 of 2006. Responsibility for the calculation of Zakat in accordance with Shariah principles and the payment of unsettled zakat lies with the shareholders.

### **2.16 Significant accounting judgments, estimates and assumptions**

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 accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

#### **Judgements**

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

#### *Classification of investments*

On acquisition of an investment, the Group decides whether it should be classified as "financial assets at fair value through profit or loss" or "financial assets available for sale".

The Group classifies investments as "financial assets at fair value through profit or loss" if they are acquired primarily for the purpose of short term profit making or if they are managed and their performance is evaluated on a reliable fair value basis in accordance with a documented investment strategy. All other investments are classified as "available for sale".

#### *Impairment of financial assets available for sale*

The Group treats "financial assets available for sale" equity investments as impaired when there has been a significant or prolonged decline in their fair value below their cost. The determination of what is "significant" or "prolonged" requires significant judgement. In addition, the Group also evaluates among other factors, normal volatility in the share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be considered appropriate when there is evidence of deterioration in the financial position of the investee, industry and sector performance; changes in technology and operational and financing cash flows.

#### *Impairment of investment in 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 associates at each reporting date based on existence of any objective evidence that the investment in the associate is impaired.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Valuation of unquoted equity investments*

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- earnings multiple technique; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

*Impairment of investments*

The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

*Impairment provision of receivables and murabaha receivables*

An estimate of the collectible amount of receivables and murabaha receivables 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.

**3. SUBSIDIARIES**

Details of the subsidiaries are shown below.

<b>Subsidiaries</b>	<b>Country of incorporation</b>	<b>Percentage of ownership</b>	
		<b>2017</b>	<b>2016</b>
Securities House for Real Estate Services Company K.S.C.(Closed) ("SHRES")	Kuwait	<b>100%</b>	100%
Saji Real Estate Company K.S.C. (Closed)	Kuwait	<b>90%</b>	90%
Silverstone Capital Ltd.	Cayman Islands	<b>100%</b>	-
<i>Held through SHRES</i>			
Emirates and Kuwait Real Estate Company L.L.C.	United Arab Emirates	<b>95%</b>	95%
<i>Held through Silverstone Capital Limited</i>			
Greystone Capital Inc.	United States of America	<b>100%</b>	-

During the current year, the Parent Company incorporated a wholly owned subsidiary, Silverstone Capital Ltd., with a fully paid up capital of KD 45,210.

Notes to the Consolidated Financial Statements - 31 December 2017

**4. BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share is computed by dividing profit attributable to the equity holders of the Parent Company by the weighted average number of shares outstanding during the year as follows:

	Kuwaiti Dinars	
	2017	2016
Profit for the year attributable to equity holders of the Parent Company	<b>22,126</b>	757,624
	Shares	
Weighted average number of shares outstanding for the year	<b>480,000,000</b>	504,642,104
<b>Basic and diluted earnings per share attributable to the equity holders of the Parent Company</b>	<b>0.0 Fils</b>	1.5 fils

**5. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as shown in the consolidated statement of cash flows is reconciled to the related items in the consolidated statement of financial position as follows:

	Kuwaiti Dinars	
	2017	2016
Bank balances and cash	<b>1,846,705</b>	1,794,237
Short-term murabaha investments with original maturities up to three months	<b>550,000</b>	2,926,358
	<b>2,396,705</b>	4,720,595

Short-term murabaha investments carry an effective average profit rate of 1.50% (2016: 1.00%) per annum.

**6. FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT**

	Kuwaiti Dinars	
	2017	2016
<b>Held for trading</b>		
Quoted equity securities	<b>736,891</b>	1,016,645
<b>Designated upon initial recognition</b>		
Unquoted local equity securities	<b>1,011,507</b>	633,750
Unquoted foreign equity securities	<b>878,198</b>	824,903
	<b>2,626,596</b>	2,475,298

During the year, the Group had an unrealised loss on quoted equity investments amounting to KD 48,114 (2016: unrealised gain of KD 58,122) and an unrealised gain on unquoted equity investments amounting to KD 461,677 (2016: unrealised loss of KD 17,513).

**7. FINANCIAL ASSETS AVAILABLE FOR SALE**

	Kuwaiti Dinars	
	2017	2016
Unquoted foreign equity securities	<b>2,042,985</b>	409,274

Unquoted equity securities are carried at cost less impairment since their fair value cannot be reliably measured due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these assets.

**Notes to the Consolidated Financial Statements - 31 December 2017**

During the year, the Group performed impairment testing for financial assets available for sale which resulted in impairment loss of KD Nil (2016: loss of KD 108,464) in the consolidated statement of income to account for the adverse circumstances affecting certain assets, thus reducing the value of these assets to their recoverable amount. The management believes that there is no objective evidence or circumstances that indicate any further impairment in the value of these assets and that there is no need to recognise any additional impairment in their value.

**8. INVESTMENT IN ASSOCIATES**

Details of the associates are shown below.

	Country of incorporation	Percentage of ownership	
		2017	2016
Gatehouse Financial Group Limited (GFGL)	United Kingdom	<b>28%</b>	28%
Al Aman Investment Company K.S.C.P. ("Al Aman")	Kuwait	<b>49%</b>	46%
Madrono Capital, LLC	United States of America	<b>50%</b>	-

Movement on the investment in associates is shown below.

	Kuwaiti Dinars	
	2017	2016
At the beginning of the year	<b>37,781,187</b>	46,454,710
Acquisitions (a)	<b>22,562</b>	389,038
Disposals (b)	-	(3,554,154)
Share of results	<b>137,394</b>	287,901
Share of other comprehensive income / loss	<b>107,913</b>	207,452
Foreign currency translation adjustment	<b>2,723,292</b>	(6,127,305)
Dividend received	-	(415,000)
Recognition of negative goodwill (a)	<b>304,585</b>	538,545
At the end of the year	<b>41,076,933</b>	37,781,187

- a) During the current year, the Group acquired an 50% interest in Madrono Capital, LLC for an amount of KD 22,562. No goodwill resulted on the acquisition.

During the current year, the effective holding of the Parent Company of Al Aman's outstanding share capital, increased from 46% to 49% as a result of Al Aman's purchase of its treasury shares. This resulted in a negative goodwill of KD 304,585 recognised in the consolidated statement of income.

During the previous year, the effective holding of the Parent Company of Al Aman's outstanding share capital, increased from 41% to 46% as a result of the Parent Company's acquisition of additional shares in Al Aman for an amount of KD 389,038 and Al Aman's purchase of its treasury shares. These transactions resulted in a negative goodwill of KD 538,545.

- b) During the previous year, the Parent Company transferred 400,000,000 shares (equivalent to 2.5% of the total issued share capital) of GFGL to its sole creditor against the final settlement of the outstanding murabaha payables amounting to KD 4,808,900 in a non-cash transaction. As a result, the Group reclassified positive reserves of KD 299,457 and recognised a net realised gain on sale amounting to KD 955,289.

Notes to the Consolidated Financial Statements - 31 December 2017

The following table illustrates summarised financial information of investments in associates:

31 December 2017	Kuwaiti Dinars			Total
	GFGL	Al Aman	Madrono	
Current assets	32,319,769	16,494,111	33,497	
Non-current assets	81,363,425	4,847,599	-	
Current liabilities	(62,593,090)	(737,320)	(55)	
Non-current liabilities and non-controlling interests	(205,056)	(483,841)	-	
Net Assets	50,885,048	20,120,549	33,442	
Revenues	6,909,935	3,262,213	-	
Profit/(Loss) for the year	106,705	250,201	(11,832)	
Share of associates' net assets	14,395,960	9,892,604	16,721	24,305,285
Goodwill and intangible assets	17,819,120	-	-	17,819,120
Eliminated gain on downstream transaction	(1,047,472)	-	-	(1,047,472)
<b>Carrying amount of interest in associates</b>	<b>31,167,608</b>	<b>9,892,604</b>	<b>16,721</b>	<b>41,076,933</b>

iv)

31 December 2016	Kuwaiti Dinars		Total
	GFGL	Al Aman	
Current assets	35,539,811	18,496,879	
Non-current assets	74,959,075	3,110,429	
Current liabilities	(53,891,283)	(366,097)	
Non-current liabilities	(11,265,600)	(800,471)	
Net Assets	45,342,003	20,440,740	
Revenues	7,361,609	1,207,977	
Profit for the year	458,064	310,234	
Share of associates' net assets	12,827,769	9,478,010	22,305,779
Goodwill and intangible assets	16,522,880	-	16,522,880
Eliminated gain on downstream transaction	(1,047,472)	-	(1,047,472)
Carrying amount of interest in associates	28,303,177	9,478,010	37,781,187

In January 2017, the Parent Company's Board of Directors made an offer to Al Aman, proposing the merger between the Parent Company and Al Aman, which was accepted by Al Aman in principle and is subject to approval of shareholders of the respective companies and the regulator after finalization of all related evaluation and other procedures.

The management believes that there is no objective evidence that indicates any impairment in the carrying value of its investments in associates.

The market value of Al Aman Investment as at 31 December 2017 was KD 4,425,000 (2016: KD 4,292,250).

## 9. SHARE CAPITAL, RESERVES AND DIRECTORS' REMUNERATION

### a) Share capital

The authorised, issued and fully paid up share capital of the Parent Company is KD 48,000,000 (2016: KD 48,000,000) comprising of 480,000,000 shares (2016: 480,000,000;) of 100 fils each.

The Extraordinary General meeting of the Parent Company's shareholders held on 19 June 2016 resolved to:

- Cancel all treasury shares outstanding as at 31 December 2015.
- Write-off the accumulated losses as at 31 December 2015.
- Capital reduction in cash of 6.5% of the total outstanding share capital at 100 fils per share amounting to KD 4,254,250.

This was registered in the commercial register on 3 July 2016. The payment in cash of 6.5 fils per share was made to the registered shareholders on 31 July 2016.

**b) Statutory reserve**

In accordance with the Parent Company's articles of association, 10% of the profit for the year before directors' remuneration, contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST") and Zakat is required to be transferred to the statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of paid-up share capital. During the current year, 10% of the profit for the year has been transferred to statutory reserve.

Distribution of this 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 accumulated profits are not sufficient for the payment of a dividend of that amount.

**c) Treasury share reserve**

Treasury share reserve was utilised to set off loss on cancellation of treasury shares.

**d) Directors' remuneration**

No directors' remuneration was recommended for the year 2017.

The ordinary general assembly of the shareholders of the Parent Company held on 15 May 2017 approved the payment of directors' remuneration of KD 25,000 for the year 2016.

**10. RELATED PARTY TRANSACTIONS**

Related parties represent major shareholders, directors and executive officers of the Group, close members of their families and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Parent Company's management.

Related party balances and transactions consist of the following:

	Kuwaiti Dinars	
	<b>2017</b>	<b>2016</b>
<b>Key management compensation:</b>		
Salaries and other short term benefits	<b>266,783</b>	<b>265,167</b>

The Securities House K.S.C.P. and Subsidiaries

Notes to the Consolidated Financial Statements - 31 December 2017

11. SEGMENTAL INFORMATION

For management purposes the Group is organised into two major business segments:

Proprietary investment management : Investing of Group's funds in securities and real estate, financing corporate and individual customers, and managing the Group's liquidity requirements.

Asset management and advisory services : Discretionary and non-discretionary investment portfolio management, managing of local and international investment funds and providing advisory and structured finance services and other related investment services.

	Proprietary investment management		Asset management and advisory services		Total	
	2017	2016	2017	2016	2017	2016
Segment revenue	551,256	942,714	27,289	51,313	578,545	994,027
Segment results	(610,668)	234,433	(222,165)	(207,399)	(832,833)	27,034
Share in result of associates	137,394	287,901			137,394	287,901
Impairment and amortisation	413,563	(67,855)			413,563	(67,855)
Negative goodwill	304,585	538,545			304,585	538,545
Taxation					(1,130)	(29,103)
Profit for the year					21,579	756,522
<b>Assets:</b>						
Segment assets	4,827,815	3,258,540	-	-	4,827,815	3,258,540
Investment in associates	41,076,933	37,781,187	-	-	41,076,933	37,781,187
Others	2,564,705	4,935,753	-	-	2,564,705	4,935,753
	48,469,453	45,975,480	-	-	48,469,453	45,975,480
<b>Liabilities:</b>						
Account payable and accruals	2,152,495	2,641,193	-	-	2,152,495	2,641,193
Employees' end of service benefits	199,107	69,096	-	-	199,107	69,096
	2,351,602	2,710,289	-	-	2,351,602	2,710,289
<b>Other segmental information:</b>						
Capital expenditure	-	215,158	-	-	-	215,158
Depreciation	47,158	-	-	-	47,158	-
Impairment loss on financial assets available for sale (Note 7)	-	(108,464)	-	-	-	(108,464)



**12. FAIR VALUE MEASUREMENT**

Financial instruments comprise of financial assets and financial liabilities as defined in Note 2.

The fair values of financial instruments except financial assets available for sale stated in Note 7, are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

Fair value of financial assets at fair value through income statement is based on the following:

	Kuwaiti Dinars			
	Total	Level 1	Level 2	Level 3
<b>31 December 2017</b>				
<b>Financial assets at fair value through income statement</b>				
<i>Held for trading:</i>				
Local quoted equity securities	288,000	288,000	-	-
Foreign quoted equity securities	448,891	448,891	-	-
<b>Designated upon initial recognition</b>				
Local unquoted securities	1,011,507	-	-	1,011,507
Foreign unquoted equity securities	878,198	-	-	878,198
	<b>2,626,596</b>	<b>736,891</b>	<b>-</b>	<b>1,889,705</b>
<b>31 December 2016</b>				
<b>Financial assets at fair value through income statement</b>				
<i>Held for trading:</i>				
Foreign quoted equity securities	1,016,645	1,016,645	-	-
<b>Designated upon initial recognition</b>				
Local unquoted securities	633,750	-	-	633,750
Foreign unquoted equity securities	824,903	-	-	824,903
	<b>2,475,298</b>	<b>1,016,645</b>	<b>-</b>	<b>1,458,653</b>

The following table shows a reconciliation of the opening and closing amount of level 3 financial instruments which are recorded at fair value.

	Kuwaiti Dinars				
	As at 1 January 2017	Transfer from level 1 on delisting of investment	Gain recorded in the consolidated statement of income	Net purchases, sales and settlements	As at 31 December 2017
Financial assets at fair value through income statement					
<i>Unquoted equity securities</i>	1,458,653	-	473,271	(42,219)	1,889,705

	Kuwaiti Dinars				
	As at 1 January 2016	Loss recorded in the consolidated statement of income	Net purchases, sales and settlements	Classified as held for sale	As at 31 December 2016
Financial assets at fair value through income statement					
<i>Unquoted equity securities</i>	1,486,166	(17,513)	(10,000)	-	1,458,653

During the year, there have been no transfers between the hierarchies.

**Description of significant unobservable inputs to valuation of financial assets:**

Valuation techniques include observable market information of such comparable companies, recent transaction information and net asset values and the significant unobservable inputs used in valuation techniques mainly include market multiples as price to book and price to earnings derived from such market information. Given the diverse nature of these investments, it is not practical to disclose a range of significant unobservable inputs.

### **13. RISK MANAGEMENT**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into profit rate risk, currency risk and equity price risk. The Group is also subject to operational risk. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the Group's strategic planning process.

#### **13.1 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. To management credit risks, the Group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business.

##### ***Maximum exposure to credit risk and risk concentration***

With respect to credit risk arising from the financial assets of the Group, which comprise bank balances and cash, short-term murabaha investments, murabaha receivables and certain accounts receivable, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of contractual financial instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The Group's bank balances and short-term murabaha investments are held with high credit quality banks and financial institutions. In addition, murabaha receivables and receivable balances are monitored on an ongoing basis. As a result, the Group's exposure to bad debts is not significant.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The table below shows the maximum exposure to credit risk and risk concentration for the contractual financial instruments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements or credit enhancements:

	Kuwaiti Dinars	
	2017	2016
Bank balances and short-term murabaha investments:		
- Local banks and financial institutions	<b>2,396,705</b>	4,720,595
- Accounts receivable	<b>136,062</b>	353,009
<b>Total exposure to credit risk</b>	<b>2,532,767</b>	5,073,604

##### ***Collateral and other credit enhancements***

The Group does not have any collateral or other credit enhancements against any of the financial assets at 31 December 2017 and 31 December 2016.

##### ***Analysis of impaired financial assets***

An estimate of the collectible amount of financial assets 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.

### 13.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group periodically assesses the financial viability of customers and invests in short-term murabaha or other investments that are readily realisable. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

The liquidity profile of financial liabilities reflects the projected cash flows which includes future profit payments over the life of these financial liabilities. The liquidity profile of financial liabilities at 31 December is as follows:

31 December 2017	Kuwaiti Dinars				Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	
Accounts payable and accruals	-	3,411	104,667	2,044,417	2,152,495
<b>Total financial liabilities</b>	-	<b>3,411</b>	<b>104,667</b>	<b>2,044,417</b>	<b>2,152,495</b>
<b>Commitments</b>	-	<b>828,002</b>	-	-	<b>828,002</b>

  

31 December 2016	Kuwaiti Dinars				Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	
Accounts payable and accruals	-	117,480	221,005	2,302,708	2,641,193
<b>Total financial liabilities</b>	-	<b>117,480</b>	<b>221,005</b>	<b>2,302,708</b>	<b>2,641,193</b>
<b>Commitments</b>	-	-	-	-	-

### 13.3 MARKET RISK

Market risk is the risk that the value of a financial asset will fluctuate as a result of changes in market variables such as profit rates, foreign exchange rates, and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration as disclosed in Note 13.4, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

#### 13.3.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group is not exposed to profit rate risk on its profit bearing assets and liabilities (short-term murabaha investments) as a result of reasonably possible changes in profit rates since the Group is not exposed to any fixed rate profit bearing assets and liabilities.

#### 13.3.2 Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Foreign currency risk is managed by the Group on the basis of determined limits and a continuous assessment of the Group's open positions and current and expected exchange rate movements. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations, and consequently the Group does not hedge foreign currency exposures.

**Notes to the Consolidated Financial Statements - 31 December 2017**

The effect on profit for the year (due to change in the fair value of monetary assets and liabilities) and on equity, as a result of change in currency rate, with all other variables held constant is shown below:

<i>Currency</i>	<b>Change in currency rate by 3%</b>			
	<b>31 December 2017</b>		<b>31 December 2016</b>	
	<b>Effect on profit for the year</b>	<b>Effect on other comprehensive income</b>	<b>Effect on loss for the year</b>	<b>Effect on other comprehensive income</b>
GBP	<b>14</b>	<b>935,028</b>	46,105	851,348
USD	<b>33,499</b>	<b>61,791</b>	25,038	10,025
SAR	<b>8,884</b>	-	19,293	-
AED	<b>4,492</b>	-	7,470	-
QAR	<b>1,782</b>	-	3,736	-

**13.3.3 Equity price risk**

Equity price risk arises from changes in the fair values of equity investments. The equity price risk exposure arises from the Group's investment portfolio. The Group manages this through diversification of investments in terms of geographical distribution and industry concentration. The majority of the Group's quoted investments are listed on the Stock Exchanges of the GCC countries.

The effect on profit for the year (as a result of a change in the fair value of financial assets at fair value through income statement) and on equity (as a result of a change in the fair value of financial assets available for sale) due to a reasonably possible change in active market indices, with all other variables held constant is as follows:

<i>Market index</i>	<b>Change in equity market index by 3%</b>			
	<b>31 December 2017</b>		<b>31 December 2016</b>	
	<b>Effect on profit for the year</b>	<b>Effect on other comprehensive income</b>	<b>Effect on loss for the year</b>	<b>Effect on other comprehensive income</b>
Kuwait	<b>8,640</b>	-	-	-
Saudi	<b>8,327</b>	-	19,293	-
UAE	<b>3,654</b>	-	7,470	-
Qatar	<b>1,486</b>	-	3,736	-

Any change in fair values of unquoted investments valued based on price earnings ratios will have a corresponding change in equity and profit before deductions.

Investments in the category of financial assets available for sale category are in unlisted companies and therefore the Group is not significantly exposed to equity price risk due to reasonably possible changes in active market indices.

The Group's unquoted equity securities carried at cost in available for sale category where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the consolidated statement of income will be impacted.

**13.3.4 Prepayment risk**

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The Group is not significantly exposed to prepayment risk.

**13.4 ASSET CONCENTRATIONS**

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

Notes to the Consolidated Financial Statements - 31 December 2017

The distribution of assets by geographic region is as follows:

Geographic region	Kuwaiti Dinars	
	2017	2016
Kuwait	13,815,654	15,421,481
United Kingdom	31,167,607	28,378,281
GCC	1,687,461	2,145,528
United States of America	1,798,731	30,190
	<b>48,469,453</b>	<b>45,975,480</b>

The distribution of investments by industry sector is as follows:

Industry sector	Kuwaiti Dinars	
	2017	2016
Banks and financial and investment institutions	42,625,864	39,697,839
Real estate	2,254,810	163,940
Insurance	803,980	803,980
Others	61,860	-
	<b>45,746,514</b>	<b>40,665,759</b>

#### 14. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for financial assets at fair value through income statement, financial assets available for sale and investment properties is based on management's estimate of liquidation of those investments.

The maturity profile of assets and liabilities at 31 December was as follows:

2017	Kuwaiti Dinars		
	Up to 1 year	Over 1 year	Total
<b>Assets:</b>			
Bank balances and cash	1,846,705	-	1,846,705
Short-term murabaha investments	550,000	-	550,000
Accounts receivable and prepayments	158,234	-	158,234
Financial assets at fair value through income statement	736,891	1,889,705	2,626,596
Financial assets available for sale	-	2,042,985	2,042,985
Investment in associates	-	41,076,933	41,076,933
Property, plant and equipment	-	168,000	168,000
<b>Total assets</b>	<b>3,291,830</b>	<b>45,177,623</b>	<b>48,469,453</b>
<b>Liabilities:</b>			
Accounts payable and accruals	2,152,495	-	2,152,495
Employees' end of service benefits	-	199,107	199,107
<b>Total liabilities</b>	<b>2,152,495</b>	<b>199,107</b>	<b>2,351,602</b>
<b>LIQUIDITY SURPLUS</b>	<b>1,139,335</b>	<b>44,978,516</b>	<b>46,117,851</b>
2016	Kuwaiti Dinars		
	Up to 1 year	Over 1 year	Total
<b>Assets:</b>			
Bank balances and cash	1,794,237	-	1,794,237
Short-term murabaha investments	2,926,358	-	2,926,358
Accounts receivable and prepayments	373,968	-	373,968
Financial assets at fair value through income statement	1,016,645	1,458,653	2,475,298
Financial assets available for sale	-	409,274	409,274
Investment in associates	-	37,781,187	37,781,187
Property, plant and equipment	-	215,158	215,158
<b>Total assets</b>	<b>6,111,208</b>	<b>39,864,272</b>	<b>45,975,480</b>
<b>Liabilities:</b>			
Accounts payable and accruals	2,641,193	-	2,641,193
Employees' end of service benefits	-	69,096	69,096
<b>Total liabilities</b>	<b>2,641,193</b>	<b>69,096</b>	<b>2,710,289</b>
<b>LIQUIDITY SURPLUS</b>	<b>3,470,015</b>	<b>39,795,176</b>	<b>43,265,191</b>

**15. FIDUCIARY ASSETS**

In its capacity as manager of portfolios and funds belonging to third parties, the Parent Company manages investments and bank accounts amounting to KD 2,818,195 (2016: KD 3,564,638) in its own name as a nominee on behalf of third parties. These assets are not included in the consolidated statement of financial position of the Group. Income from the managed portfolios and funds amounts to KD 27,289 for the year ended 31 December 2017 (2016: KD 51,313).

**16. CAPITAL MANAGEMENT**

The primary objective of the Group's capital management is to ensure that it maintains adequate capital ratios to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

To maintain or adjust the capital structure, the Group may reduce the amount of borrowings, adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016.