

AL MANAR

FINANCING & LEASING



2013

Al Manar Financing and Leasing Company

K.S.C. (Closed)

and its Subsidiaries

State of Kuwait



INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION AND INDEPENDENT AUDITORS' REVIEW REPORT

FROM 1 JANUARY TO 30 SEPTEMBER 2013
(UNAUDITED)

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AL MANAR FINANCING AND LEASING COMPANY K.S.C. (CLOSED)
State of Kuwait

**Report on Review of Interim Condensed Consolidated
Financial Information to the Board of Directors**

Introduction

We have reviewed the accompanying interim condensed consolidated Statement of Financial Position of Al Manar Financing and Leasing Company K.S.C. (Closed) "The Parent Company" and its subsidiaries, "collectively referred to as the Group" as of 30 September 2013 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the Nine months period then ended. The Parent Company's management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of preparation as disclosed in note (2). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

• **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity."

A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion

• **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of preparation set out in note (2).

Report on Other Legal and Regulatory Requirements

Further, based on our review, the interim condensed consolidated financial information is in agreement with the books of the Parent company. To the best of our knowledge and belief, no violations of the Companies Law no. 25 of 2012, as amended or of the Parent Company's Articles of Association have occurred during the period ended 30 September 2013 that might have had a material effect on the business of the Group or on its financial position.

We further report that, during the course of our review, 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 during the Nine-month period ended 30 September 2013.

Bader A. Al-Wazzan

Licence No. 62A
Deloitte & Touche, Al Wazzan & Co.

Kuwait, 11 November 2013

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2013 (Unaudited)

	NOTE	30 September 2013	31 December 2012 (Audited)	30 September 2012
		KD	KD	KD
ASSETS				
Cash and cash equivalents		1,552,930	2,470,105	3,627,058
Investment in Murabaha receivable	3	3,140,032	3,114,439	3,114,439
Accounts receivable	4	37,941,863	39,198,543	36,038,620
Financial assets at fair value through profit or loss	5	4,253,500	4,741,997	4,759,444
Available for sale investment		1,977,621	1,977,621	2,169,087
Investment properties		2,146,535	2,146,535	2,146,535
Other receivables and prepayments		438,580	732,337	794,521
Other assets		64,963	53,214	52,961
Total assets		51,516,024	54,434,791	52,702,665

LIABILITIES AND EQUITY

LIABILITIES				
Islamic Murabaha and Wakala payables	6	14,181,447	19,015,614	19,321,992
Accounts payable and other credit balances		3,672,864	3,354,287	1,818,489
Provision for staff indemnity		539,631	471,845	456,324
Total liabilities		18,393,942	22,841,746	21,596,805

EQUITY				
Share capital		30,874,759	30,874,759	30,874,759
Share premium		312,020	312,020	312,020
Statutory reserve		1,265,937	1,265,937	1,265,937
Voluntary reserve		1,243,823	1,243,823	1,243,823
Retained earnings/ (accumulated losses)		(582,107)	(2,111,144)	(2,590,679)
Total equity attributable to the shareholders of the Company		33,114,432	31,585,395	31,105,860
Non-controlling interest		7,650	7,650	-
Total equity		33,122,082	31,593,045	31,105,860
Total liabilities and equity		51,516,024	54,434,791	52,702,665

Bader Abdulla Al- Sumait
Chairman

Salah Mohamad Al-Wazzan
Vice Chairman

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2013 (Unaudited)

	NOTE	Three months ended 30 September		Nine months ended 30 September	
		2013	2012	2013	2012
		KD	KD	KD	KD
INCOME					
Finance revenues		1,539,393	863,778	3,777,560	2,855,122
Net investment gain	7	(61,642)	12,678	151,656	33,209
Other income		251,322	147,960	584,503	513,812
		1,729,073	1,024,416	4,513,719	3,402,143

EXPENSES					
Finance cost		(215,423)	(286,317)	(708,419)	(876,787)
General and administrative expenses		(370,373)	(280,945)	(1,128,823)	(1,020,953)
Provision for doubtful debts	4	(248,508)	(278,366)	(1,131,171)	(772,984)
		(834,304)	(845,628)	(2,968,413)	(2,670,724)

Profit before deductions		894,769	178,788	1,545,306	731,419
Zakat		(9,143)	(4,736)	(16,269)	(15,340)
Net profit for the period		885,626	174,052	1,529,037	716,079
Earnings per share (Fils)	8	2.87	0.56	4.95	2.32

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2013 (Unaudited)

	NOTE	Three months ended 30 September		Nine months ended 30 September	
		2013	2012	2013	2012
		KD	KD	KD	KD
Net profit for the period		885,626	174,052	1,529,037	716,079
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		885,626	174,052	1,529,037	716,079

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2013 (Unaudited)

	Share capital	Share premium	Statutory reserve	Voluntary reserve	Retained earnings/ (accumulated losses)	Total	Non-controlling interest	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2012	30,874,759	312,020	1,265,937	1,243,823	(3,306,758)	30,389,781	-	30,389,781
Net profit for the period	-	-	-	-	716,079	716,079	-	716,079
Balance at 30 September 2012	30,874,759	312,020	1,265,937	1,243,823	(2,590,679)	31,105,860	-	31,105,860
Balance at 1 January 2013	30,874,759	312,020	1,265,937	1,243,823	(2,111,144)	31,585,395	7,650	31,593,045
Net profit for the period	-	-	-	-	1,529,037	1,529,037	-	1,529,037
Balance at 30 September 2013	30,874,759	312,020	1,265,937	1,243,823	(582,107)	33,114,432	7,650	33,122,082

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2013 (Unaudited)

	NOTE	Nine months ended 30 September	
		2013	2012
		KD	KD
OPERATING ACTIVITIES			
Net profit for the period		1,529,037	716,079
Adjustments for:			
Depreciation and amortization		19,485	12,437
Provision for doubtful debts		1,131,171	772,985
Net investment gain		(151,656)	(33,209)
Income from Murabaha receivable		(25,593)	(21,194)
Finance cost		708,419	876,787
Provision for staff indemnity		74,702	49,825
		3,285,565	2,373,710
Accounts receivable		125,509	(2,801,072)
Movement of investment		588,834	(10,772)
Other receivables and prepayments		293,757	(470,284)
Accounts payable and other credit balances		318,577	(667,711)
Payments of staff indemnity		(6,916)	(9,180)
Net cash generated by/ (used in) operating activities		4,605,326	(1,585,309)
INVESTING ACTIVITIES			
Investments in Murabaha receivable		-	(1,589,359)
Purchase of investment properties		-	(114,200)
Dividends received		51,319	11,031
Purchase of property and equipment		(31,234)	(43,270)
Net cash generated by/ (used in) used in investing activities		20,085	(1,735,798)
FINANCING ACTIVITIES			
Net movement in Islamic Murabaha and Wakala payables		(4,834,167)	4,456,579
Finance cost paid		(708,419)	(876,787)
Net cash (used in)/ generated by financing activities		(5,542,586)	3,579,792
Net (decrease)/ increase in cash and cash equivalents		(917,175)	258,685
Cash and cash equivalents at beginning of the period		2,470,105	3,368,373
Cash and cash equivalents at end of the period		1,552,930	3,627,058

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2013 (Unaudited)

1. FORMATION AND PRINCIPAL ACTIVITIES

Al Manar Financing and Leasing Company K.S.C. (Closed) (“the Parent Company”) was incorporated in the State of Kuwait in 2003 by the authorized letter of incorporation no. 4857 file 1 dated 6 December 2003.

The main activities of the Parent Company and its subsidiaries (together referred to as “the Group”) are represented in practicing all financing and investing activities according to the Islamic Share’a principles.

The Parent Company is regulated by the Central Bank of Kuwait and Capital Market Authority.

The registered office of the Parent Company is P.O. Box 22828, Safat 13089, Kuwait.

The Companies Law issued on 26 November 2012 by Decree Law no 25 of 2012 (the “Companies Law”), which was published in the Official Gazette on 29 November 2012, cancelled the Commercial Companies Law No 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Decree Law no 97 of 2013 (the Decree).

According to article 2 and 3 of the Decree, the Executive Regulations, which were issued by the Minister of Commerce and Industry and published in the official gazette on 6th of October 2013 determine the basis and rules which the Company shall adopt to regularise its affairs with the Companies Law as amended within one year from the publishing date.

On 5 September 2013, the General Assembly meeting approved the financial statements for the year ended 31 December 2012 and approved not to distribute dividends.

The interim condensed consolidated financial information was approved for issue by the Board of Directors in the meeting held on 11 November 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

This interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard No. (34), “Interim Financial Reporting”.

The interim condensed consolidated financial information does not include all information and disclosures required for complete financial statements in accordance with International Financial Reporting Standards as adapted in state of Kuwait for financial institutions subject to regulations of the Central Bank of Kuwait and Capital Market Authority.

In the management’s opinion, all necessary adjustments, including recurring accruals have been included in the interim condensed consolidated financial information for fair presentation. The operating results for the period ended 30 September 2013 are not necessarily indicative of results that may be expected for the year ending 31 December 2013. For further information, it is possible to refer to the consolidated financial statements and its related notes for to the year ended 31 December 2012.

The accounting policies used in preparing the interim condensed consolidated financial information similar to those used in the preparation of consolidated financial statements for the year ended 31 December 2012 except for the adoption of the new and amended IFRS that have become effective from 1 January 2013 and those which are applicable to the Group:

- ***IFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets***

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The Company does not have any assets with these characteristics so there has been no effect on the interim condensed consolidated financial information of the Group.

- ***IFRS 10 Consolidated Financial Statements***

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and of SIC-12 Consolidation – Special Purpose Entities.

Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The adoption of this standard has not resulted in any significant impact on the financial position or performance of the Group.

- ***IFRS 11 Joint Arrangements***

The standard replaces IAS 31 "Interests in Joint Ventures". The standard removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs must be accounted for using the equity method. The standard has no significant effect on the interim condensed consolidated financial information.

- ***IFRS 12 Disclosure of Involvement with Other Entities***

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards. The Group will review before the year end and may disclose any additional disclosure in the annual financial statements of the Group.

As a consequence of the new IFRS 11 and IFRS 12; IAS 28 has been renamed IAS 28 "Investments in Associates and Joint Ventures", and describes the application of the equity method to investments in joint ventures in addition to associates. The adoption of this standard has not resulted in any impact on the financial position or performance of the Group.

- ***IFRS 13 Fair Value Measurement***

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements.

The adoption of this standard has not resulted in any additional disclosure in the interim condensed consolidated financial statements. However additional disclosure may be made in the annual financial statement of the Group.

- ***IAS 1 Presentation of Financial Statement***

The amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. The amendment affects presentation only and has no impact on the Company's financial position or performance. The adoption of this standard has not resulted in presentation changes in statement of profit or loss and other comprehensive income.

3. INVESTMENT IN MURABAHA RECEIVABLE

Investments in Murabaha receivable are the deposited amounts at local financial institutions according to Murabaha contracts. The average yield on those contracts is 1% per annum.

4. ACCOUNTS RECEIVABLE

	30 September 2013	31 December 2012	30 September 2012
	(Audited)		
	KD	KD	KD
Gross receivables	47,866,194	60,443,749	56,979,145
Less: deferred revenues	(7,107,581)	(10,412,176)	(10,104,954)
Less: provision for doubtful debts	(2,816,750)	(10,833,030)	(10,835,571)
Accounts receivable – net	37,941,863	39,198,543	36,038,620

Receivables aging 90 days and below are fully performing.

- Aging of performing receivables*

	30 September 2013	31 December 2012	30 September 2012
	(Audited)		
	KD	KD	KD
0 days	29,677,311	28,241,372	22,454,948
1- 90 days	12,021,443	12,759,307	14,905,070
Total	41,698,754	41,000,679	37,360,018

- Aging of impaired receivables*

	30 September 2013	31 December 2012	30 September 2012
	(Audited)		
	KD	KD	KD
91 – 180 days	1,518,259	1,923,627	1,948,065
181 – 360 days	1,757,314	929,123	1,070,334
More than 360 days	2,891,867	16,590,320	16,600,728
Total	6,167,440	19,443,070	19,619,127

• **Movement in the provision for doubtful debts:**

	Specific provision	General provision	Total
	KD	KD	KD
Balance at 1 January 2013	9,539,042	1,293,988	10,833,030
Charge during the period	353,644	777,527	1,131,171
Written off	(8,366,714)	(780,737)	(9,147,451)
Balance at 30 September 2013	1,525,972	1,290,778	2,816,750
Balance at 1 January 2012	9,396,601	665,986	10,062,587
Charge during the period	248,198	524,786	772,984
Balance at 30 September 2012	9,644,799	1,190,772	10,835,571

In determining the recoverability of accounts receivable, the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The Group holds KD 6,336,798 (31 December 2012: KD 11,959,338; 30 September 2012: KD 11,835,953) as collateral over its accounts receivable. Management believes that there is no further credit provision required in excess of the provision for doubtful debts.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 September 2013	31 December 2012 (Audited)	30 September 2012
	KD	KD	KD
Investments in quoted local shares	-	134,112	135,487
Investments in unquoted local shares	4,253,500	4,361,206	4,331,293
Investments in unquoted foreign shares	-	246,679	292,664
	4,253,500	4,741,997	4,759,444

The local unquoted shares are evaluated based on the market multiples approach for the book value of these investments as of 31 December 2012, adjusted during the period taking into consideration the available financial information of these investments.

6. MURABAHA PAYABLES AND ISLAMIC WAKALA

Islamic Murabaha and Wakala payables are obtained from local banks and are dominated in KD. The average cost on Islamic Murabaha and Wakala payables is 5.75% (31 December 2012: 6.6%; 30 September 2012: 6.53%).

Islamic Murabaha and Wakala payables are guaranteed against the following:

	30 September 2013	31 December 2012 (Audited)	30 September 2012
	KD	KD	KD
Investment in Murabaha receivables	3,140,032	3,114,439	3,114,439
Assigning receivables	35,951,849	35,553,087	30,411,006
Available for sale investment	1,582,097	1,582,097	1,735,270

7. NET INVESTMENT GAIN

	Three months ended 30 September		Nine months ended 30 September	
	2013	2012	2013	2012
	KD	KD	KD	KD
Change in fair value of financial assets at FVTPL	(101,696)	12,678	(107,706)	22,178
Realized gain on disposal of financial assets at FVTPL	-	-	208,043	-
Dividend income	40,054	-	51,319	11,031
	(61,642)	12,678	151,656	33,209

8. EARNINGS PER SHARE

Earnings per share are calculated based on the net profit for the period divided by the weighted average number of shares outstanding during the period as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2013	2012	2013	2012
	KD	KD	KD	KD
Net profit for the period	885,626	174,052	1,529,037	716,079
Weighted average number of the Parent Company's outstanding shares	308,747,590	308,747,590	308,747,590	308,747,590
Earnings per share (Fils)	2.87	0.56	4.95	2.32

9. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties consist of major shareholders, directors and executive officers of the Group, their families and companies of which they are the principal owners. All related party transactions approximate arms length terms and are approved by the Group's management.

The related party balances and transactions included in the interim condensed consolidated financial information are as follows:

	30 September 2013	31 December 2012 (Audited)	30 September 2012
	KD		KD
a) Finance receivables	25,948	22,042	15,934
b) Investments managed by major shareholder	3,564,128	3,951,237	3,788,422
c) Due from related party (Qatar Finance House Company QPSC)	214,448	214,448	214,488
d) Key management's benefits payable	310,660	263,650	255,965
e) Compensation of key management personnel			
Salaries and other short term benefits	443,201	447,816	373,163

10. SEGMENTAL INFORMATION

Operating segments are to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The operating segments are divided into two major business segments. Business segments are distinguishable components of the Group that provide products or services subject to risks and returns different from those of other business segments.

	30 September 2013			
	Finance	Investment	Unallocated items	Total
	KD	KD	KD	KD
Segment revenues	4,260,591	177,249	75,879	4,513,719
Segment expenses	(1,839,590)	-	(1,145,092)	(2,984,682)
Segment results	2,421,001	177,249	(1,069,213)	1,529,037
Segment assets	42,634,825	8,377,656	503,543	51,516,024
Segment liabilities	14,181,447	-	4,212,495	18,393,942

	30 September 2012			
	Finance	Investment	Unallocated items	Total
	KD	KD	KD	KD
Segment revenues	2,949,158	33,209	419,776	3,402,143
Segment expenses	(1,649,772)	-	(1,036,292)	(2,686,064)
Segment results	1,299,386	33,209	(616,516)	716,079
Segment assets	39,665,678	12,189,505	847,482	52,702,665
Segment liabilities	19,321,992	-	2,274,813	21,596,805

11. FAIR VALUE HIERARCHY

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- **Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;**
- **Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);**
- **Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).**

30 June 2013	Level 1	Level 2	Level 3	Total
	KD	KD	KD	KD
Financial assets at FVTPL		4,253,500	-	4,253,500
Available for sale investment	-	-	1,977,621	1,977,621

31 December 2012	Level 1	Level 2	Level 3	Total
	KD	KD	KD	KD
Financial assets at FVTPL	134,112	4,607,885	-	4,741,997
Available for sale investment	-	-	1,977,621	1,977,621

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