

AL MANAR

FINANCING & LEASING



2018



Al Manar Financing and Leasing Company
K.S.C. (Closed)
and its Subsidiaries
State of Kuwait

Interim Condensed Consolidated Financial Information (Unaudited)
For the nine month period ended 30 September 2018
With Review Report

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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**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2018 (Unaudited)

	NOTE	30 September 2018	31 December 2017 (Audited)	30 September 2017
		KD	KD	KD
ASSETS				
Cash and cash equivalents	5	2,260,186	2,120,943	2,680,423
Investment in Murabaha receivables	6	4,347,321	4,300,000	4,300,000
Finance receivables	7	30,429,507	32,443,754	32,293,408
Financial assets at fair value through profit or loss		3,610,556	3,871,529	3,991,741
Financial assets at fair value through OCI		1,450,536	-	-
Available for sale investments		-	1,450,536	1,603,125
Investment properties		2,339,285	1,476,535	1,476,535
Other receivables and prepayments		216,847	550,344	206,643
Other assets		39,463	55,843	58,117
Total assets		44,693,701	46,269,484	46,609,992

LIABILITIES AND EQUITY

LIABILITIES				
Islamic Murabaha and Wakala payables	8	6,735,483	6,492,205	5,618,095
Accounts payable and other credit balances	9	1,361,083	2,682,893	2,430,728
Provision for staff indemnity		1,252,994	1,113,417	1,070,627
Total liabilities		9,349,560	10,288,515	9,119,450

EQUITY				
Share capital		30,874,759	30,874,759	30,874,759
Share premium		312,020	312,020	312,020
Statutory reserve		2,000,722	2,000,722	1,825,064
Voluntary reserve		1,242,080	1,414,274	1,442,352
Retained earnings		906,910	1,371,544	3,028,697
Total equity attributable to the shareholders of the Parent Company		35,336,491	35,973,319	37,482,892
Non-controlling interests		7,650	7,650	7,650
Total equity		35,344,141	35,980,969	37,490,542
Total liabilities and equity		44,693,701	46,269,484	46,609,992

Kareem AL Taji
Chairman

Bader Al Ghanem
Vice Chairman

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the nine months ended 30 September 2018 (Unaudited)

	NOTE	Three months ended 30 September		Nine months ended 30 September	
		2018	2017	2018	2017
		KD	KD	KD	KD
REVENUES					
Finance revenues		791,540	811,624	2,437,591	2,466,809
Provision for doubtful debts		(224,256)	(208,342)	(328,954)	268,666
Gains/ (losses) from investments		16,147	-	14,566	47,152
Other income		147,755	154,821	421,695	391,336
		731,186	758,103	2,544,898	3,173,963

EXPENSES					
Finance costs		97,877	90,872	291,325	341,683
Staff costs		255,201	247,879	928,296	733,900
General and administrative expenses		122,196	112,464	380,730	377,047
		475,274	451,215	1,600,351	1,452,630

Profit before deductions		255,912	306,888	944,547	1,721,333
Kuwait Foundation Advancement of Science		(2,303)	(2,762)	(8,501)	(15,492)
Zakat		(2,768)	(3,370)	(10,841)	(17,146)
Net profit for the period		250,841	300,756	925,205	1,688,695
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		250,841	300,756	925,205	1,688,695
Earnings per share (Fils)	10	0.81	0.97	3.00	5.47

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 NINE MONTHS ENDED 30 SEPTEMBER 2018 (Unaudited)

	Share capital	Share premium	Statutory reserve	Voluntary reserve	Retained earnings	Total	Non-controlling interest	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2017	30,874,759	312,020	1,825,064	1,442,352	1,340,002	35,794,197	7,650	35,801,847
Net profit for the period	-	-	-	-	1,688,695	1,688,695	-	1,688,695
Balance at 30 September 2017	30,874,759	312,020	1,825,064	1,442,352	3,028,697	37,482,892	7,650	37,490,542
Balance at 1 January 2018	30,874,759	312,020	2,000,722	1,414,274	1,371,544	35,973,319	7,650	35,980,969
Effect of the adoption IFRS 9 (Note 2.2.1.2)	-	-	-	-	(18,295)	(18,295)	-	(18,295)
Balance at 1 January 2018	30,874,759	312,020	2,000,722	1,414,274	1,353,249	35,955,024	7,650	35,962,674
Dividends (Note 11)	-	-	-	(172,194)	(1,371,544)	(1,543,738)	-	(1,543,738)
Net profit for the period	-	-	-	-	925,205	925,205	-	925,205
Balance at 30 September 2018	30,874,759	312,020	2,000,722	1,242,080	906,910	35,336,491	7,650	35,344,141

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 nine months ended 30 September 2018 (Unaudited)

	NOTE	Nine months ended 30 September	
		2018	2017
		KD	KD
OPERATING ACTIVITIES			
Net profit for the period		925,205	1,688,695
Adjustments for:			
Depreciation and amortization		23,787	23,128
Gains from investments		(14,566)	(47,152)
Provision for doubtful debts		328,954	(268,666)
Income from Murabaha receivable		(53,424)	(39,543)
Finance costs		291,325	341,683
Provision for staff indemnity		164,261	78,993
		1,665,542	1,777,138
Finance receivables		1,685,293	507,478
Financial FVTPL investments		269,110	11,862
Other receivables and prepayments		333,497	689,086
Accounts payable and other credit balances		(855,804)	(5,525)
Net cash generated from operating activities		3,097,638	2,980,039
INVESTING ACTIVITIES			
Income received from Murabaha receivables		53,424	39,543
Murabaha receivables		(65,000)	-
Dividends received		6,429	80,240
Purchase of Investment property		(862,750)	-
Purchase of property and equipment		(7,407)	(13,490)
Net cash (used in)/ generated from investing activities		(875,304)	106,293
FINANCING ACTIVITIES			
Net movement of Islamic Murabaha and Wakala payables		243,278	(5,323,353)
Dividends paid		(2,034,428)	(132,245)
Finance costs paid		(291,325)	(341,683)
Net cash used in financing activities		(2,082,475)	(5,797,281)
Net increase /(decrease) in cash and cash equivalents		139,859	(2,710,949)
Transition adjustment on adoption of IFRS 9		(616)	-
Cash and cash equivalents at beginning of the period		2,120,943	5,391,372
Cash and cash equivalents at end of the period	5	2,260,186	2,680,423

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

for the nine months ended 30 September 2018 (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 all financing and investing activities according to the Islamic Share’a principles.

The Parent Company is subject to instructions and monitoring by the Central Bank of Kuwait and Capital Markets Authority.

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

The interim condensed consolidated financial information includes the financial information of the Parent Company and its subsidiaries (the Group) as follow:

Company name	Ownership percentage (%)		Activity	Country of corporation
	30 September 2018	30 September 2017		
Manarat Tasaheel Real Estate Company W.L.L	99	99	Projects Management	Kuwait
Al-Manar Express for Marketing Consulting Company W.L.L	50	50	Consulting activities	Kuwait
Al- Manar Watania for Administrative Consulting Company W.L.L	50	50	Consulting activities	Kuwait

Subsidiaries’ management accounts have been used for the consolidation purpose as at 30 September 2018. The total assets of the subsidiaries are KD 2,406,881 (KD 1,887,531 as at 31 December 2017, KD 1,541,072 as at 30 September 2017), net losses of KD 55,379 during the nine months ended 30 September 2018 (net profits KD 22,366 during the nine months ended 30 September 2017).

The interim condensed consolidated financial information was approved for issue by the Board of Directors on 3 December 2018.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of presentation

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 adopted 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 2018 are not necessarily indicative of results that may be expected for the year ending 31 December 2018. For further information, it is possible to refer to the consolidated financial statements and its related notes for the year ended 31 December 2017.

2.2 Significant accounting policies

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 2017 except for the effect of application of new and revised International Financial Reporting Standards (IFRS) as the follows:

2.2.1 Impact of application of IFRS 9 "Financial Instruments"

The Group has applied IFRS 9 "Financial Instruments" from 1 January 2018, with the exception of requirements of the expected credit losses on credit facilities which have been replaced by the Central Bank of Kuwait's requirements for credit losses.

2.2.1.1 Changes in accounting policy

The Group has adopted IFRS 9 Financial Instruments effective from 1 January 2018 with the exception of requirements of the expected credit losses on financing receivables, which have been replaced by the provisioning requirements of CBK. IFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group has not restated comparative information for 2017 as permitted by the transitional provisions of the standard. Therefore, the information presented for 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for 2018. Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018 and are disclosed in Note 2.2.1.2.

The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summarised below:

Classification and Measurement of Financial assets

The Group classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost
- Financial assets carried at fair value through other comprehensive income ("FVOCI")
- Financial assets carried at fair value through profit or loss ("FVPL")

Financial assets carried at amortised cost:

A financial asset is carried at amortised cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective yield method. Financing income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of profit or loss. Any gain or loss on derecognition is recognised in the consolidated statement of profit or loss.

Financial assets carried at FVOCI:

a) Debt Securities at FVOCI

A debt investment is carried at FVOCI if it meets both of the following conditions:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Debt securities at FVOCI are subsequently measured at fair value. Profit calculated using the effective yield method, foreign exchange gains and losses and impairment losses are recognised in the consolidated statement of profit or loss. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity until the asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the consolidated statement of profit or loss.

b) Equity investments at FVOCI

Upon initial recognition, the Group makes an irrevocable election to classify some of its equity investments as equity investments at FVOCI if they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in other comprehensive income and presented in the fair values reserves as part of equity. Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on derecognition and are not recognised in the consolidated statement of profit or loss. Dividend income on equity investments at FVOCI are recognised in the consolidated statement of profit or loss unless they clearly represent a recovery of part of the cost of the investment in which case they are recognised in other comprehensive income. Equity investments at FVOCI are not subject to impairment assessment.

Financial assets carried at FVPL:

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument at FVPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and profit are mandatorily required to be measured at FVPL.

Financial assets at FVPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of profit or loss. Profit is recognised using the effective yield method. Dividend income from equity investments measured at FVPL is recognised in the consolidated statement of profit or loss when the right to the payment has been established.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case'

or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment of whether contractual cash flows are Solely Payments of Principal and Profit ("SPPP test")

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPP test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Profit is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows ("CCF") are solely payments of principal and profit, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

The Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of profit rates.

Contractual terms that introduce a more than minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payment of principal and profit. In such cases, the financial asset is measured at fair value through profit or loss.

Reclassification of financial assets

The Group does not reclassify its financial assets subsequent to their initial recognition apart in the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line.

Impairment of financial assets

The Group recognises Expected Credit Losses ("ECL") for debt instruments other than financing receivables, measured at amortised cost or FVOCI. The Group applies a three-stage approach to measure the expected credit loss as follows:

Stage 1: 12-months ECL

The Group measures loss allowances at an amount equal to 12-months ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2: Lifetime ECL – not credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3: Lifetime ECL – credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Credit losses are ECLs that result from all possible default events over the expected life of a financial instrument. The 12 months ECL is the portion of lifetime expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both lifetime expected credit losses and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

Determining the stage for impairment

At each reporting date, the Group assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due.

At each reporting date, the Group also assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

Measurement of ECLs

Expected credit losses are probability-weighted estimate of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”). The Group estimates these elements using appropriate credit risk models taking into consideration of the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro economic scenarios etc.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost. In the case of debt instruments measured at FVOCI, the Group recognises the provision charge in the consolidated statement of profit or loss with the corresponding amount recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the statement of financial position.

Impairment of financing receivables

The Group recognises provision charge for financing receivables in accordance with the provisioning requirements of CBK. At each reporting date, the Group assesses whether there is any objective evidence that a financial asset classified as financing receivables or a group of such financial assets are impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated statement of profit or loss.

The amount of impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of profit or loss. In addition, in accordance with CBK instructions, a minimum general provision is made on all applicable financing receivables (net of certain categories of collateral) that are not provided for specifically.

2.2.1.2 Disclosures in relation to the initial application of IFRS 9 “Financial Instruments”

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

Financial assets	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39	Additional loss allowance recognised under IFRS 9	New carrying amount under IFRS 9
			KD	KD	KD
Cash and bank balances	Loans and receivables	Amortized cost	2,120,943	(616)	2,120,327
Investment in Murabaha receivables	Loans and receivables	Amortized cost	4,300,000	(17,679)	4,282,321
Investments in equities	Fair value through profit or loss	Fair value through profit or loss	3,871,529	-	3,871,529
Investments in equities	Available for sale investments	Fair value through OCI	1,450,536	-	1,450,536
Other receivables and prepayments	Loans and receivables	Amortized cost	550,344	-	550,344

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.

The following table analyses the impact of transition to IFRS 9 on fair value reserve and accumulated losses.

	Retained earnings	Fair value reserve
Closing balance under IAS 39 (31 December 2017)	1,371,544	-
Impact on reclassification and re-measurements:		
Expected Credit losses under IFRS 9 – cash and cash equivalents	(616)	-
Expected Credit losses under IFRS 9 – Investment in Murabaha receivables	(17,679)	-
Opening balance under IFRS 9 on date of initial application of 1 January 2018	1,353,249	-

2.2.2 Impact of application of IFRS 15 Revenue from Contract from Customers

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

It established a new five-step model that will apply to revenue arising from contracts with customers as follows:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group adopted IFRS 15 'Revenue from Contracts with Customers' resulting in no change in the revenue recognition policy of the Group in relation to its contracts with customers. Further, adoption of IFRS 15 had no impact on this interim condensed consolidated financial information of the Group.

3. FAIR VALUE ESTIMATION

The fair values of financial assets and financial liabilities are determined as follows:

- **Level one:** Quoted prices in active markets for identical assets or liabilities.
- **Level two:** Quoted prices in an active market for similar instruments. Quoted prices for identical assets or liabilities in market that are not active. Inputs other than quoted prices that are observable for assets and liabilities.
- **Level three:** Inputs for the asset or liabilities that are not based on observable market data.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis:

Financial assets	Fair value as at			Fair value hierarchy	Valuation technique(s) and Key input(s)	Relationship of unobservable inputs to fair value
	30 September 2018	31 Dec. 2017 (Audited)	30 September 2017			
	KD	KD	KD			
Financial assets at fair value through profit or loss:						
Local unquoted shares	2,960,005	3,220,978	2,060,663	Level 2	Market comparatives	N/A
Foreign unquoted shares	648,000	648,000	724,927	Level 2	Market comparatives	N/A
Local funds	2,551	2,551	2,551	Level 2	Net unite value	N/A

Financial assets at fair value through OCI:						
Foreign unquoted shares	1,450,536	-	-	Level 2	Market comparatives	N/A

Available for sale investments:						
Foreign unquoted shares	-	1,450,536	1,203,660	Level 2	Market comparatives	N/A

Fair values of the Group's other financial assets and financial liabilities are approximately equal to their carrying value.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In the application of the Group's accounting policies, the Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects future periods.

Judgements:

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

Classification of investments in equity instruments - IFRS 9 (Effective from 1 January 2018)

On acquisition of an investment, the Group decides whether it should be classified as "FVTPL" or "FVTOCI". The Group follows the guidance of IFRS 9 on classifying its investments.

The Group has designated all investments in equity instruments as at FVOCI as these investments are strategic investments and are not held for trading.

Impairment

The Group has to assess whether credit risk on financial assets and other items has increased significantly since initial recognition in order to determine whether 12 months ECL or lifetime ECL should be recognized.

Sources of estimation uncertainty

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

- **Valuation of financial instruments**

The Group's management determines the appropriate valuation techniques and input for fair value measurement. In estimating the fair value of an asset or a liability the Group uses market observable data to the extent it is available. Information about valuation techniques and input used in determining the fair value of various assets and liabilities are disclosed in Note 3.

- **Impairment**

The Group uses of forward-looking information and assumptions about the probability of default and expected credit risk rates.

5. CASH AND CASH EQUIVALENTS

	30 September 2018	31 December 2017	30 September 2017
	(Audited)		
	KD	KD	KD
Cash on hand	1,200	31,687	1,850
Cash at banks	2,258,986	2,089,256	2,678,573
	2,260,186	2,120,943	2,680,423

6. INVESTMENT IN MURABAHA RECEIVABLE

Investment in Murabaha receivables are the deposited amounts at a local financial institution according to Murabaha contracts. The average yield on those contracts is 1.86% per annum (1.312% per annum – 2017).

7. FINANCE RECEIVABLE

	30 September 2018	31 December 2017 (Audited)	30 September 2017
	KD	KD	KD
Finance receivables	40,849,997	42,556,616	42,376,739
Less: deferred revenues	(5,552,553)	(5,615,585)	(5,692,208)
Less: provision for doubtful debts	(4,867,937)	(4,497,277)	(4,391,123)
Finance receivables – net	30,429,507	32,443,754	32,293,408

7.1 Finance receivables amounted to KD 19,302,259 as at 30 September 2018 (KD 21,423,217 as at 31 December 2017, KD 21,539,248 as at 30 September 2017) not matured yet.

7.2 Finance receivables amounted to KD 14,263,719 as at 30 September 2018 (KD 15,133,342 as at 31 December 2017, KD 12,875,918 as at 30 September 2017) is due from 1 to 90 and not impaired, and for which no specific provision are provided.

7.3 Finance receivables amounted to KD 7,284,019 as at 30 September 2018 (KD 6,000,057 as at 31 December 2017, KD 7,961,573 as at 30 September 2017) due and not collected and impaired are as follows:

- Aging analysis of due and impaired receivables*

	30 September 2018	31 December 2017 (Audited)	30 September 2017
	KD	KD	KD
91 – 180 days	824,176	386,894	2,253,990
181 – 365 days	998,864	308,197	467,164
365 + days	5,460,979	5,304,966	5,240,419
Total	7,284,019	6,000,057	7,961,573

- Net movement in the provision for doubtful debts:*

	Specific provision	General provision	Total
	KD	KD	KD
Balance at 1 January 2018	3,837,384	659,893	4,497,277
Provided during the period	397,644	(26,984)	370,660
Balance at 30 September 2018	4,235,028	632,909	4,867,937
Balance at 1 January 2017	2,907,540	1,650,473	4,558,013
Reversal during the period	-	(1,237,392)	(1,237,392)
Charge during the period	1,070,502	-	1,070,502
Balance at 30 September 2017	3,978,042	413,081	4,391,123

In determining the recoverability of finance receivables, the Group considers any change in the credit quality of the receivable from the date credit was initially granted till to the reporting date. The Group holds KD 9,822,167 as at 30 September 2018 (KD 9,778,411 - 31 December 2017; KD 12,383,324 - 30 September 2017) as collateral over its finance receivables. Management believes that there is no further credit provision required in excess of the provision for doubtful debts.

During the current period the Group recovered an amount of KD 41,706 as at 30 September 2018 (KD 111,775 - 30 September 2017) from the written off finance receivables and reversed the same in the interim condensed consolidated statement of income in provision for doubtful debts item.

8. ISLAMIC MURABAHA AND WAKALA PAYABLES

Islamic Murabaha and Wakala payables are obtained from local banks and are dominated in KD. The average cost on Murabaha payables and Islamic Wakala is 6.11 (5.48% - 31 December 2017; 5.36% - 30 September 2017).

Islamic Murabaha and Wakala payables are guaranteed against the following:

	30 September 2018	31 December 2017	30 September 2017
	(Audited)		
	KD	KD	KD
Investment in Murabaha receivables	4,347,321	4,300,000	4,300,000
Assigning receivables – net	12,013,674	12,814,210	12,055,088
Available for sale investments	-	1,160,429	-
Financial assets at fair value through other comprehensive income	1,160,429	-	-
Investment properties	1,476,535	1,476,535	1,476,535

9. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

	30 September 2018	31 December 2017	30 September 2017
	(Audited)		
	KD	KD	KD
Trade payables	622,360	1,222,274	1,510,693
Dividends payable	391,295	881,985	202,825
Accrued salaries and other staff accruals	235,443	378,504	573,420
KFAS	29,771	52,510	52,193
Zakat	39,801	28,960	33,209
Others	42,413	118,660	58,388
	1,361,083	2,682,893	2,430,728

10. 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		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	KD	KD	KD	KD
Net profit for the period	250,841	300,756	925,205	1,688,695
Weighted average number of the Parent Company's outstanding shares	308,747,591	308,747,591	308,747,591	308,747,591
Earnings per share (Fils)	0.81	0.97	3.00	5.47

11. DIVIDENDS

On 23 April 2018, the shareholders approved the consolidated financial statements for the year ended 31 December 2017, and approved the followings:

-Distribution of dividends of 5% for the shareholders by KD 1,543,738 from the year ended 31 December 2017, to be deducted from the retained earnings by KD 1,371,544 and deducted from voluntary reserve by KD 172,194.

-Board of Directors Committees' remunerations of KD 60,500 for year 2017.

-Approval of the listing of the company's shares on the Kuwait Stock Exchange as well as Stock Market outside Kuwait in accordance with the laws and decisions issued by the relevant regulatory bodies and authorize the Board of Directors to take all necessary procedures in this regard.

12. RELATED PARTIES' TRANSACTIONS AND BALANCES

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 parties transactions approximate arms length terms and are approved by the Group's management.

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

	30 September	31 December	30 September
	2018	2017	2017
	(Audited)		
	KD	KD	KD
Balances:			
a) Finance receivable	130,761	49,308	98,848
b) Key management's benefits payable	877,943	631,091	620,295
Transactions:			
a) Compensation of key management personnel Salaries and other short term benefits	503,821	566,354	481,174
b) Board of Directors committees' remunerations	-	60,500	59,800

The Group has entered into an agreement with a related party to collect the outstanding installments from some of the finance receivables on behalf of the Group. The cash collected from that party on behalf of the Parent Company amounted to KD 2,120,726 during the current period. The fees paid to that party amounted to KD 12,741.

13. 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 2018			
	Finance	Investment	Unallocated items	Total
	KD	KD	KD	KD
Segment revenues	2,108,637	14,566	421,695	2,544,898
Segment expenses	(291,325)	-	(1,328,368)	(1,619,693)
Segment results	1,817,312	14,566	(906,673)	925,205
Segment assets	37,037,014	7,400,377	256,310	44,693,701
Segment liabilities	7,714,479	-	1,635,081	9,349,560

	30 September 2017			
	Finance	Investment	Unallocated items	Total
	KD	KD	KD	KD
Segment revenues	2,965,625	47,152	161,186	3,173,963
Segment expenses	(341,683)	-	(1,143,585)	(1,485,268)
Segment results	2,623,942	47,152	(982,399)	1,688,695
Segment assets	39,273,831	7,071,401	264,760	46,609,992
Segment liabilities	7,128,788	-	1,990,662	9,119,450

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