

AL MANAR

FINANCING & LEASING



2011

Al Manar Financing and Leasing Company

K.S.C. (Closed)

and its Subsidiaries

State of Kuwait



CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

INDEX	PAGE
Independent auditors' report	2-3
Consolidated statement of financial position at 31 December 2011	4
Consolidated statement of income for the year ended 31 December 2011	5
Consolidated statement of comprehensive income for the year ended 31 December 2011	5
Consolidated statement of changes in equity for the year ended 31 December 2011	6
Consolidated statement of cash flows for the year ended 31 December 2011	7
Notes to the consolidated financial statements	8-29



Al-Fahad Al-Wazzan & Co.

Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 & 9
P.O. Box 20174 Safat 13062 or
P.O. Box 23049 Safat 13091
Kuwait
Tel : + 965 22408844, 22438060
Fax: + 965 22408855, 22452080
www.deloitte.com



**BAKER TILLY
KUWAIT**

Dr. Saud Al-humaidi & Partners
Public Accountants

P.O.BOX 1486
Safat, 13015 kuwait
Tel: +965 22443222
+965 22442333
Fax: +965 22461225
www.bakertillykuwait.com

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

Independent Auditors' Report to the Shareholders

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Al Manar Financing and Leasing Company K.S.C. (Closed) ("the Parent Company") and its subsidiaries (collectively referred to as "the Group") which comprise the consolidated statement of financial position as of 31 December 2011, 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 a summary of significant accounting policies and other explanatory notes.

• ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use in the state of Kuwait, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

• ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

- **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

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 Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Parent Company's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violation of provision of the Commercial Companies Law of 1960, as amended, or of the Parent Company's Articles of Association have occurred during the year ended 31 December 2011 that might have had a material effect on the business of the Group 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 during the year ended 31 December 2011.

Jassim Ahmad Al-Fahad

License No. 53-A
Al-Fahad, Al-Wazzan &
Co. Deloitte & Touche

Dr. Saud Al-Humaidi

Licence No. 51 A
Al Humaidi & Partners
Independent Member of Baker Tilly
International

4 October 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	NOTE	2011 KD	2010 KD
ASSETS			
Cash and cash equivalents	5	3,368,373	1,600,214
Investment in Murabaha Receivable	6	1,503,886	-
Accounts receivable	7	34,010,533	43,026,276
Financial assets at fair value through profit or loss	8	4,726,494	7,757,408
Available for sale investment	9	2,169,087	-
Investment in associate	9	-	3,755,538
Investment properties	10	2,032,335	1,163,240
Other receivables and prepayments	11	109,789	973,225
Due from related party	23	214,448	213,865
Intangible assets		4,071	9,073
Property and equipment		18,057	8,579
Total assets		48,157,073	58,507,418

LIABILITIES AND EQUITY

LIABILITIES			
Islamic Murabaha and Wakala payables	12	14,865,413	22,087,706
Accounts payable and other credit balances	13	2,486,200	1,897,237
Provision for staff indemnity		415,679	358,221
Total liabilities		17,767,292	24,343,164

EQUITY			
Share capital	14	30,874,759	30,874,759
Share premium		312,020	312,020
Statutory reserve	15	1,265,937	1,265,937
Voluntary reserve	16	1,243,823	1,243,823
Foreign currency translation reserve		-	115,641
(Accumulated losses)/ retained earnings		(3,306,758)	352,074
Total equity		30,389,781	34,164,254
Total liabilities and equity		48,157,073	58,507,418

Bader Abdulla Al- Sumait
Chairman

Salah Mohamad Al-Wazzan
Vice Chairman

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2011

	NOTE	2011 KD	2010 KD
REVENUE			
Finance revenues		4,339,791	6,185,175
Associate (loss)/ gain	9	(265,945)	187,777
Recovery of impairment loss on investment properties	10	16,760	34,951
Other income	17	394,754	502,531
		4,485,360	6,910,434

EXPENSES			
Net investments losses	18	(4,694,287)	(837,508)
Finance costs		(1,105,184)	(2,349,441)
General and administrative expenses	19	(620,958)	(652,994)
Staff costs	20	(1,034,633)	(1,056,108)
Provision for doubtful debts	7	(672,937)	(1,091,603)
Depreciation and amortization		(16,193)	(52,724)
		(8,144,192)	(6,040,378)

(Loss)/ profit before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS") and Zakat		(3,658,832)	870,056
Contribution to KFAS		-	(7,831)
Zakat		-	(9,396)
Net (loss)/ profit for the year		(3,658,832)	852,829
Basic and diluted (loss)/ earnings per share	21	(11.85) Fils	2.76 Fils

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

Net (loss)/ profit for the year		(3,658,832)	852,829
Other comprehensive income:			
Foreign currency translation		(14,491)	(37,383)
Transferred to the statement of income (note 9)		(101,150)	-
Other comprehensive loss for the year		(115,641)	(37,383)
Total comprehensive (loss)/ income for the year		(3,774,473)	815,446

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital	Share premium	Statutory reserve	Voluntary reserve	Foreign currency translation reserve	(Accumulated loss)/ Retained earnings	Total
	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2010	30,874,759	312,020	1,178,931	1,156,817	153,024	(326,743)	33,348,808
Net profit for the year	-	-	-	-	-	852,829	852,829
Other comprehensive income items:							
Foreign currency translation	-	-	-	-	(37,383)	-	(37,383)
Total other comprehensive income items	-	-	-	-	(37,383)	-	(37,383)
Transfer to reserves	-	-	87,006	87,006	-	(174,012)	-
Balance at 31 December 2010	30,874,759	312,020	1,265,937	1,243,823	115,641	352,074	34,164,254
Net loss for the year	-	-	-	-	-	(3,658,832)	(3,658,832)
Other comprehensive income items:							
Foreign currency translation	-	-	-	-	(14,491)	-	(14,491)
Transferred to the statement of income (note 9)	-	-	-	-	(101,150)	-	(101,150)
Total other comprehensive loss items	-	-	-	-	(115,641)	-	(115,641)
Balance at 31 December 2011	30,874,759	312,020	1,265,937	1,243,823	-	(3,306,758)	30,389,781

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

OPERATING ACTIVITIES			
Net (loss)/ profit for the year		(3,658,832)	852,829
Adjustments for:			
Associate loss/ (Gain)		265,945	(187,777)
Recovery of impairment loss on investment properties		(16,760)	(34,951)
Provision for doubtful debts		672,937	1,091,603
Depreciation and amortisation		16,193	52,724
Loss on disposal of property and equipment		-	10,434
Net investments losses		4,694,287	837,508
Income from Murabaha Receivable		(4,858)	-
Finance costs		1,105,184	2,349,441
Provision for staff indemnity		102,304	82,077
		3,176,400	5,053,888
Accounts receivable		8,342,805	19,313,913
Other receivables and prepayments		364,361	46,837
Purchase of financial assets at FVTPL		(15,874)	(31,070)
Due from/ to related party		(583)	(82,887)
Accounts payable and other credit balances		588,963	1,104,973
Payments of staff indemnity		(44,846)	(12,511)
Net cash generated from operating activities		12,411,226	25,393,143
INVESTING ACTIVITIES			
Proceeds from sale of financial assets at FVTPL		16,061	-
Purchase of investment properties		(852,335)	(670,000)
Investment in Murabaha Receivable		(1,503,886)	-
Income received from Murabaha receivable		4,858	-
Dividend income received		40,380	-
Purchase of property and equipment		(20,668)	-
Purchase of intangible assets		-	(17,061)
Net cash used in investing activities		(2,315,590)	(687,061)
FINANCING ACTIVITIES			
Net movement in Islamic Murabaha and Wakala payables		(7,222,293)	(23,186,373)
Finance costs paid		(1,105,184)	(2,349,441)
Net cash used in financing activities		(8,327,477)	(25,535,814)
Net increase/ (decrease) in cash and cash equivalents		1,768,159	(829,732)
Cash and cash equivalents at beginning of the year		1,600,214	2,429,946
Cash and cash equivalents at end of the year	5	3,368,373	1,600,214

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 regulated by the Central Bank of Kuwait & Capital Markets Authority.

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

These consolidated financial statements were authorized for issue by the Board of Directors on 4 October 2012 and are subject to the approval of the Annual General Assembly of the shareholders.

2. ADOPTION OF NEW AND REVISED STANDARDS

a) New standards, interpretations and amendments effective from 1 January 2011

The improvements to International Financial Reporting Standards (“IFRS”)’s 2010 made several minor amendments to a number of IFRSs. None of the new standards, interpretations and amendments, effective for the first time from 1 January 2011, have had a material effect on the consolidated financial statements.

b) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 Financial Instruments, which becomes mandatory for the Group’s 2015 consolidated financial statements and could change the classification and measurement of financial assets. The extent of the impact has not been determined.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board (“IASB”), and Interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, as adopted for use by the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait (“CBK”) and the Capital Market Authority (CMA). These regulations require adoption of all IFRS except for the IAS 39 requirement for collective impairment provision, which has been replaced by the CBK requirement for a minimum general provision as described in the impairment of financial assets accounting policy.

The accounting policies have been applied consistently by the Group and are consistent with those used in the previous year.

These consolidated financial statements are presented in Kuwaiti Dinar (“KD”), which is the Group’s functional and presentation currency. The consolidated financial statements are prepared under the historical cost convention with the exception of financial assets at fair value through profit or loss and available for sale investments which are carried at fair value.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Parent Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

Any related accumulated items in equity will be accounted for as if the Company had directly disposed of the relevant assets (reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting.

Details of subsidiaries are as follows:

Name of subsidiaries	Direct Ownership percentage		Country of incorporation	Principal activities
	2011	2010		
United Tasaheel Real Estate Company (Bader Abdulla Al Sumait and Partner W.L.L.)	99%	99%	Kuwait	Buying and selling of real estate
Manarat Tasaheel Real Estate Company (Hamad Abdullah Ahmed and Partner W.L.L.)	99%	99%	Kuwait	Project Management
Al-Manar Express for Marketing Consulting Company (Abdullah Saoud Al Bader and Partner W.L.L.)	50%	50%	Kuwait	Consulting activities
Al- Manar Watania for Administrative Consulting Company (HamadAbdullah Madoh and Partner W.L.L.)	50%	50%	Kuwait	Consulting activities

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), held to maturity, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. The Group has determined the classification of its financial assets as follows:

- **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and bank balances.

- **Murabaha receivables**

Murabaha receivables represent financial assets originated by the Group and invested with institutions for onward deals by those institutions in various Islamic financial operations, and are carried at amortised cost.

- **Accounts receivable**

Accounts receivable are measured at initial recognition at fair value, net of unearned profit, and are subsequently measured at amortised cost using the effective profit rate method, net of specific and general provisions for amounts estimated to be uncollectible on the basis of a continuous appraisal of the receivables portfolio considering current economic conditions and other relevant factors. Specific provisions are made to reduce all impaired receivables to their expected realisable value and general provisions are made to provide for losses known from experience to exist but not yet specifically identified in accordance with the requirements of the CBK.

- **Financial assets at fair value through profit or loss ("FVTPL")**

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any gains arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 26.

- **Available for sale (AFS)**

AFS financial assets are non-derivatives and are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The financial assets available for sale is re-measured at fair value. The fair value is determined in the manner described in **note 3**.

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of changes in fair value reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Foreign exchange gains and losses are recognised in other comprehensive income.

- ***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

For accounts receivables, objective evidence of impairment could include: (i) significant financial difficulty of the issuer or counterparty; or (ii) default or delinquency in profit or principal payments; or (iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

In addition, in accordance with CBK instructions, a minimum general provision of 1% for cash facilities and 0.5% for non cash facilities is made on all credit facilities net of certain restricted categories of collateral, and not subject to specific provision.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of income.

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 through the consolidated statement of income to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

- ***Derecognition of financial assets***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

- ***Islamic Murabaha and Wakala payables***

Islamic Murabaha and Wakala payables are Islamic transactions involving the Group purchase of assets from a counterparty and settlement thereof at cost plus an agreed profit on a deferred payment basis. Islamic Murabaha and Wakala payables are stated at amortised cost.

- ***Accounts payable***

Accounts payable are initially measured at fair value, and are subsequently measured at amortised cost, using the effective profit rate method.

- ***Derecognition of financial liabilities***

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Investment in associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount.

Any impairment loss is recognised immediately in the profit or loss. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group reclassifies all amounts previously recognised in other comprehensive income in relation to that associate to profit or loss when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Investment properties

Investment properties represent land held to earn rentals and/or for capital appreciation. They are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated impairment losses. The carrying amounts are reviewed at each reporting date on an individual basis to assess whether they are recorded in excess of their recoverable amount. Provisions for impairment losses, if any, are made where carrying values exceed the recoverable amount.

Intangible assets

Intangible assets, which consist of software and key money, are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over the estimated useful lives of 3 years. The estimated useful life and amortisation method are reviewed at each reporting date, with the effect of any changes in estimates being accounted for on a prospective basis.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

Depreciation is calculated based on the estimated useful lives of the applicable assets on a straight-line basis commencing when the assets are ready for their intended use.

The estimated useful lives, residual values and depreciation methods are reviewed at each reporting date, with the effect of any changes in estimate accounted for on prospective basis.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

Impairment of tangible and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior periods. A reversal of an impairment loss is recognised as income immediately.

Provision for staff indemnity

Provision is made for staff indemnity which is payable on completion of employment. The provision is calculated in accordance with Kuwait Labour Law based on employees' salaries and accumulated years of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the liability that would arise as a result of the involuntary termination of staff at the reporting date, on the basis that this computation is a reliable approximation of the present value of this obligation.

Revenue recognition

- ***Income from credit facilities***

A charge for credit facilities is included at the outset in the Murabaha and Wakala agreement with the customer. Income is deferred and recognised as income as it is earned, on a time apportionment basis.

- ***Dividend income***

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

- ***Fees and commission income***

Fees and commission income are recognised at the time the related services are provided.

Translation of foreign currencies

Transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the consolidated statement of income for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated statement of income for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

The assets and liabilities of the Group's foreign operations are expressed in KD using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as other comprehensive income and accumulated in the Group's foreign currency translation reserve. Such exchange differences are recognised in the consolidated statement of income in the period in which the foreign operation is disposed of.

Zakat

Effective 10 December 2007, the Group has provided for Zakat in accordance with the requirements of Law No. 46 of 2006. The Zakat charge calculated in accordance with these requirements is charged to the consolidated statement of income.

Contribution to Kuwait Foundation for the Advancement of Sciences

The Group is legally required to contribute to the Kuwait Foundation for the Advancement of Sciences ("KFAS"). The Group's contributions to KFAS are recognised as an expense in the period during which the Group's contribution is legally required.

Dividend distribution

Dividend distribution to the Parent Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Annual General Assembly (**note 22**).

Provisions

A provision is recognised when, and only when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Finance costs

Finance costs are recognised in the consolidated statement of income in the period in which it is incurred.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, 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 recognised 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 both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (See below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

- ***Classification of investments***

The Group's management decides on the acquisition of an investment whether it should be classified as available for sale or at FVTPL.

Investments are classified at FVTPL if they have been acquired principally for the purpose of selling in the near term and their fair value can be reliably determined.

Key sources of 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 period 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; or
- Other valuation models.

- ***Impairment losses on finance facilities***

The Group reviews its finance facilities on a monthly basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

- ***Impairment of tangible and intangible assets and useful lives***

The Group's management tests annually whether tangible and intangible assets have suffered impairment in accordance with the accounting policies stated in note 3. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

The Group's management determines the useful lives of tangible and intangible assets and the related depreciation and amortisation charges. The depreciation and amortisation charges for the period will change significantly if actual life is different from the estimated useful life of the asset.

5. CASH AND CASH EQUIVALENTS

	2011	2010
	KD	KD
Cash on hand	18,807	25,587
Cash at banks	3,349,566	1,574,627
	3,368,373	1,600,214

6. INVESTMENT IN MURABAHA RECEIVABLE

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

7. ACCOUNTS RECEIVABLE

	2011	2010
	KD	KD
Gross receivables	53,857,354	64,393,958
Less: deferred revenues	(9,784,234)	(11,978,032)
Less: provision for doubtful debts	(10,062,587)	(9,389,650)
Accounts receivable – net	34,010,533	43,026,276

Accounts receivable with age of 90 days and below are fully performing. At 31 December 2011, gross receivables of KD 34,176,796 (31 December 2010: KD 40,157,000) were fully performing.

The Group follows the CBK requirements for calculating the provision for doubtful debts, which requires a general provision of 1% on all credit facilities net of certain categories of collateral, to which CBK instructions are applicable, and not subject to specific provision.

Specific provision as per the CBK requirements are provided net of certain categories of collateral, to which CBK instructions are applicable, for receivables aging above 90 days.

- Aging of accounts receivable due and not collected*

	2011	2010
	KD	KD
91 – 180 days	1,138,049	4,404,993
181 – 360 days	2,696,028	5,905,104
More than 360 days	15,846,481	13,926,861
Total	19,680,558	24,236,958

- Analysis of provision for doubtful debts*

	2011	2010
	KD	KD
Specific	9,396,601	9,055,148
General	665,986	334,502
Total	10,062,587	9,389,650

• **Movement of the provision for doubtful debts**

	Specific provision	General provision	Total
	KD	KD	KD
Balance at 1 January 2011	9,055,148	334,502	9,389,650
Charge during the year	341,453	331,484	672,937
Balance at 31 December 2011	9,396,601	665,986	10,062,587
Balance at 1 January 2010	7,790,154	507,893	8,298,047
Charge/ (release) during the year	1,264,994	(173,391)	1,091,603
Balance at 31 December 2010	9,055,148	334,502	9,389,650

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 11,664,356 (31 December 2010: KD 18,607,750) as collateral over its accounts receivable. Management believes that there is no further credit provision required in excess of the provision for doubtful debts.

The carrying amounts of the Group's accounts receivable are denominated in KD and are located in the State of Kuwait.

The accounts receivable include an amount of KD 23,990,904 (31 December 2010: KD 30,651,046) pledged as collateral against Islamic Murabaha and Wakala payables (note 12). The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above (note 26).

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011	2010
	KD	KD
Investments in quoted local shares	102,537	133,430
Investments in unquoted local shares and funds	4,331,293	7,340,502
Investments in unquoted foreign shares	292,664	283,476
	4,726,494	7,757,408

Fair values of investments are determined by using the bases of valuation mentioned in **note 26**.

9. INVESTMENT IN ASSOCIATE

Details of the Group's associate are as follows:

Name of company	Country of incorporation	Percentage of ownership and voting power		Principal activity
		2011	2010	
Qatar Finance House Company Q.P.S.C	Qatar	-	20%	Financing activities

During the year ended 31 December 2011, the Group's ownership in the associate is diluted from 20% to 14.79%. Accordingly, the group reclassified the retained investment to available for sale investment and measured it at fair value. As a result, the group reclassified all amounts previously recognised in other comprehensive income in relation to that associate amounted to KD 101,150 to profit or loss.

- *The movement in the investment in associate balance is as follows:*

	2011	2010
	KD	KD
Balance at the beginning of the year	3,755,538	3,605,144
Paid for capital increase (transferred from other receivable)	499,075	-
Share of results of associate	(367,095)	187,777
Foreign currency translation	(14,491)	(37,383)
Transfer to the Available for sale investments	(3,873,027)	-
	-	3,755,538

Non cash transactions have been eliminated for the cash flow purpose.

10. INVESTMENT PROPERTIES

The Group's investment properties' details are as follows:

a) A plot of land in Mahboola - Kuwait acquired through a Musharaka agreement in 2008 at a cost of KD 510,000 representing 83.6% ownership. The average fair value at 31 December 2011 for the Group's stake amounts to KD 516,230 (2010: KD 493,240)

b) A plot of land in Fahaheel – Kuwait acquired in 2010 at a cost of KD 670,000. The average fair value at 31 December 2011 amounts to KD 762,500 (2010: KD 724,163).

c) A plot of land in Manqaf – Kuwait acquired in 2011 at a cost 852,335. The average fair value at 31 December 2011 amounts to KD 892,875.

The fair values of the investment properties have been arrived on the basis of a valuation carried out by independent valuers. The valuation was arrived at by reference to market evidence of transaction prices for similar properties

11. OTHER RECEIVABLES AND PREPAYMENTS

	2011	2010
	KD	KD
Prepaid expenses	28,632	28,489
Staff receivables and deductions	16,413	40,167
Refundable deposits	53,300	312,825
Advance against investment in associate	-	499,075
Other debit balances	11,444	92,669
	109,789	973,225

12. ISLAMIC MURABAHA AND WAKALA PAYABLES

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 7.19% as of 31 December 2011 (31 December 2010: 7.28%) per annum.

Islamic Murabaha and Wakala payables are guaranteed by assigning receivables amounting to KD 23,990,904 as of 31 December 2011 (31 December 2010: KD 30,651,046) (See note 7).

13. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

	2011	2010
	KD	KD
Trade payables	1,885,818	1,279,340
Accrued salaries and other staff accruals	268,539	201,919
Dividends payable	255,786	257,816
KFAS	26,367	80,135
Zakat	1,234	21,925
Others	48,456	56,102
	2,486,200	1,897,237

14. SHARE CAPITAL

The authorized and paid up share capital is KD 30,874,759 at 31 December 2011 (31 December 2010: KD 30,874,759) distributed over 308,747,591 shares with 100 fils per share.

15. STATUTORY RESERVE

As required by the Kuwait Commercial Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year before contribution to KFAS and Zakat is to be transferred to the statutory reserve until the reserve reaches a minimum of 50% of the paid up share capital. This reserve is not available for distribution except for payment of a dividend of 5% of paid up share capital in years when retained earnings are not sufficient for the payment of such dividends.

16. VOLUNTARY RESERVE

In accordance with the Parent Company's Articles of Association, a percentage of the profit for the year as determined by an ordinary general assembly is to be transferred to the voluntary reserve. This transfer may be stopped by a resolution adopted by an ordinary general assembly as recommended by the Board of Directors of the Parent Company. There are no restrictions on distributions from the voluntary reserve.

17. OTHER INCOME

	2011	2010
	KD	KD
Financing fee income	204,327	211,416
Collected fee income	26,731	38,001
Rental income	83,870	50,037
Others	79,826	203,077
	394,754	502,531

18. NET INVESTMENTS LOSSES

	2011	2010
	KD	KD
Change in fair value of financial assets at FVTPL	(3,028,097)	(837,508)
Loss on sale of financial assets at FVTPL	(2,630)	-
Dividend income	40,380	-
Loss from impairment on available for sale investments	(1,703,940)	-
	(4,694,287)	(837,508)

19. GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
	KD	KD
Management fees	22,720	27,435
Rent	122,148	134,214
Commission	34,051	40,140
Advertising	4,560	5,560
Penalties	22,500	1,000
IT consultancy cost	900	4,950
Bank charges	6,953	5,516
Sponsorship expenses	1,500	8,100
Telephone charges	14,264	30,128
Cleaning and messenger costs	12,600	24,103
Internet charges	10,587	10,599
Professional expenses	22,460	24,219
Others	345,715	337,030
	620,958	652,994

20. STAFF COSTS

	2011	2010
	KD	KD
Salaries and allowances	726,663	764,474
Provision for staff indemnity	102,304	82,077
Accrual Leave	22,997	26,961
Staff bonus	112,000	103,339
Others	70,669	79,257
	1,034,633	1,056,108

21. BASIC AND DILUTED (LOSS)/ EARNINGS PER SHARE

Basic and diluted earnings per share are calculated based on the profit for the year divided by the weighted average number of shares outstanding during the year, as follows:

	2011	2010
	KD	KD
(Loss)/ profit for the year	(3,658,832)	852,829
Weighted average number of the Parent Company's outstanding shares	308,747,591	308,747,591
Basic and diluted (loss)/ earnings per share	(11.85) Fils	2.76 Fils

There are no potential dilutive shares.

22. DIVIDENDS

The Annual General Assembly held its meeting on 18 July 2011 and approved the annual audited consolidated financial statements of the Group for the year ended 31 December 2010 and the non-distribution of any dividends.

On 18 March 2012 the Board of directors proposed not to distribute dividends for the year ended 31 December 2011. This proposal is subject to the approval of the shareholders.

23. RELATED PARTY 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 these consolidated financial statements are as follows:

	2011	2010
	KD	KD
A) Accounts receivable	54,118	72,888
B) Investments managed by major shareholder	4,436,494	7,310,329
C) Due from related party (Qatar Finance House Company QPSC)	214,448	213,865
E) Compensation of key management personnel		
Salaries and other short term benefits	482,919	506,071
Post-employment benefits	232,907	201,587
	715,826	707,658

24. 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

	2011			
	Finance	Investment	Unallocated items	Total
	KD	KD	KD	KD
Segment revenues	4,264,524	57,140	163,696	4,485,360
Segment expenses	(1,471,796)	(4,853,109)	(1,819,287)	(8,144,192)
Segment results	2,792,728	(4,795,969)	(1,655,591)	(3,658,832)
Segment assets	38,882,792	8,927,916	346,365	48,157,073
Segment liabilities	14,865,413	-	2,901,879	17,767,292

	2010			
	Finance	Investment	Unallocated items	Total
	KD	KD	KD	KD
Segment revenues	6,434,592	315,384	160,458	6,910,434
Segment expenses	(3,441,044)	(837,508)	(1,779,053)	(6,057,605)
Segment results	2,993,548	(522,124)	(1,618,595)	852,829
Segment assets	44,626,490	13,175,261	705,667	58,507,418
Segment liabilities	22,087,706	-	2,255,458	24,343,164

25. CONTINGENT LIABILITIES

	2011	2010
	KD	KD
Letters of guarantee	6,680	-

26. FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the Islamic Murabaha and Wakala Payable disclosed in note 12, cash and cash equivalents disclosed in note 5 and equity, comprising paid up share capital and reserves as disclosed in notes 14, 15 and 16 respectively, share premium, losses / retained earnings and other reserves.

- **Gearing ratio**

The gearing ratio at year end was as follows:

	2011	2010
	KD	KD
Islamic Murabaha and Wakala debt	14,865,413	22,087,706
Cash and cash equivalents	(3,368,373)	(1,600,214)
Net debt	11,497,040	20,487,492
Equity	30,389,781	34,164,254
Net debt to equity ratio	38%	60%

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 3 to these consolidated financial statements.

Categories of financial instruments

	2011	2010
	KD	KD
Financial assets		
Cash and cash equivalents	3,368,373	1,600,214
Investment in Murabaha Receivable	1,503,886	-
Accounts receivable	34,010,533	43,026,276
Financial assets at fair value through profit or loss	4,726,494	7,757,408
Available for sale investment	2,169,087	-
Other receivables	53,300	312,825
Due from related party	214,448	213,865
Financial liabilities		
Islamic Murabaha and Wakala payables	14,865,413	22,087,706
Accounts payables and other credit balances	2,437,744	1,841,135

Financial risk management objectives

The Group's management monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and equity price risk), operational risk, credit risk and liquidity risk.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and equity prices.

- **Foreign currency exchange risk management**

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters and through continuously monitoring exchange rate fluctuations.

The carrying amounts of the Group's foreign currency denominated monetary assets at the reporting date are as follows:

	Assets	
	2011	2010
	KD	KD
United States Dollar (USD)	197,061	259,761

There are no foreign currencies denominated monetary liabilities at the reporting date.

- **Foreign currency sensitivity analysis**

At 31 December 2011, if the foreign currencies had weakened/strengthened by 5% against the KD with all other variables held constant, profit for the year would not have been materially changed.

- **Equity price risk**

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages the risk through diversification of investments in terms of geographic distribution and industry concentration. At 31 December 2011, if equity prices had been 5% higher / lower, with all other variables held constant, profit for the year would not have been significantly changed.

Operational risk

Operational risk is the risk of loss arising from system's failure, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The Group has a set of policies and procedures, which are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the financial activities of the Group. Operational risk is managed to ensure compliance with policies and procedures and monitors operational risk as part of overall risk management activities.

The operational risk of the Group is managed in line with the CBK instructions concerning the general guidelines for internal controls and best practice for managing and supervising operational risks in financial institutions.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. To limit this risk, the Group deals with creditworthy customers from corporates, financial institutions and high net worth individuals and has policies and procedures in place to limit the amount of credit exposure to any single and related counter party. These policies include the non-concentration of credit risk. The Group minimizes other concentrations of credit risk by undertaking transactions with a large number of customers. All policies relating to credit are reviewed and approved by the Board of Directors.

• **Maximum exposure to credit risk**

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown before the effect of mitigation through the use of collateral held or other credit enhancements.

	2011	2010
	KD	KD
Cash and cash equivalents	3,349,566	1,574,627
Investment in Murabaha Receivable	1,503,886	-
Accounts receivable	34,010,533	43,026,276
Other receivables	53,300	312,825
Due from related party	214,448	213,865
	39,131,733	45,127,593

For more detail on the maximum exposure to credit risk for each class of financial instruments, references shall be made to the specific notes.

The Group manages the exposure of credit risk by the use of collaterals and the diversification of the Group's assets over different kinds of activities and business segments.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Cash collaterals
- Bank Guarantees
- Income generating and non-income generating real estate
- Shares and other Islamic financial instruments

Management monitors the market value of collateral and requests additional collateral if required in accordance with the underlying agreement. It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

• **Credit quality per class of financial assets**

In managing its portfolio, the Group utilizes ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Moderate' quality comprise all other facilities where the payment performance is fully compliant with contractual conditions and which are not 'impaired'. The ultimate risk of possible financial loss on 'Moderate' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality of financial assets, based on the Group's credit rating system.

	Neither past due nor impaired			Total
	High	Moderate	Past due or impaired	
	KD	KD	KD	
31 December 2011				
Cash and cash equivalents	3,349,566	-	-	3,349,566
Investment in Murabaha Receivable	1,503,886	-	-	1,503,886
Accounts receivable (gross)	21,287,666	12,889,130	19,680,558	53,857,354
Other receivables	53,300	-	-	53,300
Due from related party	214,448	-	-	214,448
	26,408,866	12,889,130	19,680,558	58,978,554

	Neither past due nor impaired			Total
	High	Moderate	Past due or impaired	
	KD	KD	KD	
31 December 2010				
Cash and cash equivalents	1,574,627	-	-	1,574,627
Accounts receivable (gross)	19,380,851	20,776,149	24,236,958	64,393,958
Other receivables	312,825	-	-	312,825
Due from related party	213,865	-	-	213,865
	21,482,168	20,776,149	24,236,958	66,495,275

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the management of the Group, who have built an appropriate liquidity risk management framework for the management of the Group's short and medium funding and liquidity management requirements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets.

The liquidity profile of financial liabilities are as follows:

	Within 1 month	1 to 3 months	3 to 12 months	Above 1 year	Total
	KD	KD	KD	KD	KD
31 December 2011					
Islamic Murabaha and Wakala payables	1,027,779	2,135,820	7,163,829	5,533,880	15,861,308
Accounts payable and other credit balances	-	2,486,200	-	-	2,486,200
	1,027,779	4,622,020	7,163,829	5,533,880	18,347,508

	Within 1 month	1 to 3 months	3 to 12 months	Above 1 year	Total
	KD	KD	KD	KD	KD
31 December 2010					
Islamic Murabaha and Wakala payables	3,887,694	3,832,687	8,155,518	7,421,175	23,297,074
Accounts payable and other credit balances	-	1,897,237	-	-	1,897,237
	3,887,694	5,729,924	8,155,518	7,421,175	25,194,311

Fair value of financial instruments

Management believes that the fair value of the financial instruments at the reporting date is not significantly different from their respective carrying amounts.

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. For all the listed equity securities the fair value has been determined by referring to their quoted bid prices at the reporting date.
- The fair values of other financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes of similar instruments.

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).

31 December 2011	Level 1	Level 2	Level 3	Level 4
	KD	KD	KD	KD
Financial assets at FVTPL	102,537	4,623,957	-	4,726,494
Available for sale investment	-	-	2,169,087	2,169,087

31 December 2010	Level 1	Level 2	Level 3	Total
	KD	KD	KD	KD
Financial assets at FVTPL	133,430	7,623,978	-	7,757,408

المينار

للتموويل والإدارة



2011