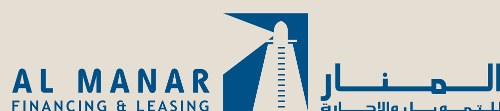
AL MANAR
FINANCING & LEASING

2012

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 2012

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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 Company") and its subsidiaries (collectively referred to as "the Group") which comprise the consolidated statement of financial position as of 31 December 2012, 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 2012, 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 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 Companies Law no. 25 of 2012, and by the 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 provisions of the Companies Law no. 25 of 2012, or of the Company's Articles of Association have occurred during the year ended 31 December 2012 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 2012.

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

5 March 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

ASSETS	NOTE	2012 KD	2011 KD
Cash and cash equivalents	4	2,470,105	3,368,373
Investment in Murabaha Receivables	5	3,114,439	1,503,886
Accounts receivable	6	39,198,543	34,010,533
Financial assets at fair value through profit or loss	7	4,741,997	4,726,494
Available for sale investments	8	1,977,621	2,169,087
Investment properties	9	2,146,535	2,032,335
Other receivables and prepayments	10	732,337	324,237
Intangible assets		9,132	4,071
Property and equipment		44,082	18,057
Total assets		**54,434,791**	**48,157,073**

LIABILITIES AND EQUITY

LIABILITIES	NOTE	2012 KD	2011 KD
Islamic Murabaha and Wakala payables	11	19,015,614	14,865,413
Accounts payable and other credit balances	12	3,354,287	2,486,200
Provision for staff indemnity		471,845	415,679
Total liabilities		**22,841,746**	**17,767,292**

EQUITY	NOTE	2012 KD	2011 KD
Share capital	13	30,874,759	30,874,759
Share premium		312,020	312,020
Statutory reserve	14	1,265,937	1,265,937
Voluntary reserve	15	1,243,823	1,243,823
Accumulated losses		(2,111,144)	(3,306,758)
Total equity attributable to the shareholders of the Company		31,585,395	30,389,781
Non-controlling interest		7,650	-
Total equity		**31,593,045**	**30,389,781**
Total liabilities and equity		**54,434,791**	**48,157,073**

Bader Abdulla Al- Sumait
Chairman

Salah Mohamad Al-Wazzan
Vice Chairman

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2012

	NOTE	2012 KD	2011 KD
INCOME			
Finance revenues		4,089,609	4,339,791
Share of associate's loss		-	(265,945)
Other income	16	748,747	411,514
		4,838,356	**4,485,360**

	NOTE	2012 KD	2011 KD
EXPENSES			
Net investments losses	17	(175,622)	(4,694,287)
Finance costs		(1,165,367)	(1,105,184)
Staff costs	18	(967,570)	(1,034,633)
Provision for doubtful debts	6	(770,443)	(672,937)
Depreciation and amortisation		(18,476)	(16,193)
Other expenses	19	(532,731)	(620,958)
		(3,630,209)	**(8,144,192)**

	NOTE	2012 KD	2011 KD
Profit / (loss) before deductions		1,208,147	(3,658,832)
Zakat		(12,533)	-
Net profit / (loss) for the year		**1,195,614**	**(3,658,832)**
Basic and diluted earnings / (loss) per share (Fils)	20	**3.87**	**(11.85)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

		2012	2011
Net profit / (loss) for the year		1,195,614	(3,658,832)
Other comprehensive income items			
Foreign currency translation		-	(14,491)
Transferred to the statement of income		-	(101,150)
Total other comprehensive income items		1,195,614	(115,641)
Total comprehensive income / (loss) for the year		**1,195,614**	**(3,774,473)**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITYN

For the year ended 31 December 2012

	Share capital	Share premium	Statutory reserve	Voluntary reserve	Foreign currency translation reserve	Accumulated loss	Total	Non-controlling interest	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2011	30,874,759	312,020	1,265,937	1,243,823	115,641	352,074	34,164,254	-	**34,164,254**
Net loss for the year	-	-	-	-	-	(3,658,832)	(3,658,832)	-	**(3,658,832)**
Other comprehensive income items:								-	
Foreign currency translation	-	-	-	-	(14,491)	-	(14,491)	-	**(14,491)**
Transferred to the statement of income	-	-	-	-	(101,150)	-	(101,150)	-	**(101,150)**
Total other comprehensive loss items	-	-	-	-	(115,641)	-	(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	-	**30,389,781**
Net profit for the year	-	-	-	-	-	1,195,614	1,195,614	-	**1,195,614**
Non - controlling interest movement	-	-	-	-	-	-	-	7,650	**7,650**
Balance at 31 December 2012	30,874,759	312,020	1,265,937	1,243,823	-	(2,111,144)	31,585,395	7,650	**31,593,045**

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 2012

		2012	2011
OPERATING ACTIVITIES			
Net profit / (loss) for the year		1,195,614	(3,658,832)
Adjustments for:			
Share of associate's loss		-	265,945
Recovery of impairment loss on investment property		-	(16,760)
Provision for doubtful debts		770,443	672,937
Depreciation and amortisation		18,476	16,193
Net investments losses		175,622	4,694,287
Income from Murabaha Receivable		(32,404)	(4,858)
Finance costs		1,165,367	1,105,184
Provision for staff indemnity		83,235	102,304
		3,376,353	**3,176,400**
Accounts receivable		(5,958,453)	8,342,805
Other receivables and prepayments		(400,450)	364,361
Financial assets at FVTPL		(10,690)	187
Due from / to related party – net		-	(583)
Accounts payable and other credit balances		973,168	588,963
Payments of staff indemnity		(27,069)	(44,846)
Net cash (used in) / generated from operating activities		**(2,047,141)**	**12,427,287**
INVESTING ACTIVITIES			
Purchase of investment properties		(114,200)	(852,335)
Investment in Murabaha Receivable		(1,610,553)	(1,503,886)
Income received from Murabaha receivable		32,404	4,858
Dividend income received		11,031	40,380
Purchase of property and equipment		(39,878)	(20,668)
Purchase of intangible assets		(9,684)	-
Net cash used in investing activities		**(1,730,880)**	**(2,331,651)**
FINANCING ACTIVITIES			
Net movement in Islamic Murabaha and Wakala payables		4,150,201	(7,222,293)
Dividends paid		(105,081)	-
Finance costs paid		(1,165,367)	(1,105,184)
Net cash generated from / (used) in financing activities		**2,879,753**	**(8,327,477)**
Net (decrease) / increase in cash and cash equivalents		**(898,268)**	**1,768,159**
Cash and cash equivalents at beginning of the year		**3,368,373**	**1,600,214**
Cash and cash equivalents at end of the year	4	**2,470,105**	**3,368,373**

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 2012

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.

On 26 November 2012, the Companies law No. 25 of 2012 has been issued and published in the official gazette on 29 November 2012 to replace the Commercial Companies law No. 15 of 1960. The new Law is effective from the date of its publishing in the official gazette. Companies should make necessary procedures to be in compliance with provisions of the new law within six months from its effective date.

The company is currently taking the necessary procedures in this respect.

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 5 March 2013 and are subject to the approval of the Annual General Assembly of the shareholders.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), 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).

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.

2.2 New and revised standards

New and revised IFRSs issued and effective

IFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets

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

AS 12 Deferred Taxes - Recovery of Underlying Assets

Under the amendments, investments properties that are measured using the fair value model in accordance with IAS 40 are presumed to be recovered entirely through sale for the purpose of measuring deferred taxes unless the presumption is rebutted. This amendment has no impact on the group's financial statements.

New and revised IFRSs in issue but not yet effective

- IFRS 7: Financial Instruments: Disclosures
- IFRS 9: Financial Instruments: Classification and Measurement
- IFRS 10: Consolidated Financial Statements
- IFRS 11: Joint Arrangements
- IFRS 12: Disclosures of Interests in Other Entities
- IFRS 13: Fair Value Measurement
- IAS 1: Presentation of Financial Statements
- IAS 19: Employee Benefits
- IAS 27: Separate Financial Statements
- IAS 28: Investments in Associates and Joint Ventures
- IAS 32: Financial Instruments: Presentation

The Group has not applied these new and revised IFRS. Following are the significant changes that are related to the group activities:

For annual periods beginning on or after 1 July 2012

IAS 1 Presentation of Financial Statement

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

For annual periods beginning on or after 1 January 2013

IFRS 10 Consolidated Financial Statements

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

Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The Group expects the application of this standard will have no significant impact on the group financial statements.

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements.

IFRS 11 Joint Arrangements

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

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

As a consequence of the new IFRS 11 and IFRS 12; IAS 28 has been renamed IAS 28 "Investments in Associates and Joint Ventures", and describes the application of the equity method to investments in joint ventures in addition to associates.

IFRS 13 Fair Value Measurement

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

The group anticipates that the application of the new standard may affect certain amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

For annual periods beginning on or after 1 January 2014

IFRS 7 "Financial Instruments – Disclosures" and IAS 32 "Financial Instruments – Presentation"

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off'.

For annual periods beginning on or after 1 January 2014

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 retrospectively. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

For annual periods beginning on or after 1 January 2015

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 introduced new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

The group anticipates that the application of IFRS 9 in the future may have impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

2.3 Significant accounting policies

2.3.1 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
Manarat Tasaheel Real Estate Company (Hamad Abdullah Ahmed and Partner W.L.L.)	99%	Kuwait	Project Management
Al-Manar Express for Marketing Consulting Company (Abdullah Saoud Al Bader and Partner W.L.L.)	50%	Kuwait	Consulting activities
Al- Manar Watania for Administrative Consulting Company (HamadAbdullah Madoh and Partner W.L.L.)	50%	Kuwait	Consulting activities
United Tasaheel Real Estate Company (Bader Abdulla Al Sumait and Partner W.L.L.)	-	Kuwait	Buying and Selling of real estate

2.3.2 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 25.**

- ***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 2.**

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.

2.3.3 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.

2.3.4 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.

2.3.5 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.

2.3.6 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.

2.3.7 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.

2.3.8 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.

2.3.9 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.

2.3.10 Accounting for leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Operating lease payments are recognized as expenses on a straight-line basis over the lease term.

2.3.11 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.

2.3.12 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.

2.3.13 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.

2.3.14 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.

2.3.15 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.

2.3.16 Finance costs

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

3. 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.

3.3.1

- ***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 2**. 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.

4. CASH AND CASH EQUIVALENTS

	2012	2011
	KD	KD
Cash on hand	463	18,807
Cash at banks	2,469,642	3,349,566
	2,470,105	**3,368,373**

5. INVESTMENT IN MURABAHA RECEIVABLE

Investment in Murabaha receivables are the deposited amounts at local financial institutions according to Murabaha contracts. The average yield on those contracts is 1.26% per annum (2011: 1%).

6. ACCOUNTS RECEIVABLE

	2012	2011
	KD	KD
Gross receivables	60,443,749	53,857,354
Less: deferred revenues	(10,412,176)	(9,784,234)
Less: provision for doubtful debts	(10,833,030)	(10,062,587)
Accounts receivable – net	**39,198,543**	**34,010,533**

- ***Aging of accounts receivable due and not collected***

	2012	2011
	KD	KD
91 – 180 days	1,923,627	1,138,049
181 – 360 days	929,123	2,696,028
More than 360 days	16,590,320	15,846,481
Total	**19,443,070**	**19,680,558**

6.1 Accounts receivable with age of 90 days and below are fully performing. At 31 December 2012, gross receivables of KD 41,000,679 (31 December 2011: KD 34,176,796) were fully performing.

6.2 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.

6.3 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.

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

	Specific provision	General provision	Total
	KD	KD	KD
Balance at 1 January 2012	**9,396,601**	**665,986**	**10,062,587**
Charge during the year	142,441	628,002	**770,443**
Balance at 31 December 2012	9,539,042	1,293,988	**10,833,030**
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**

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 11,959,338 (31 December 2011: KD 11,664,356) as collateral over its accounts receivable. Management believes that there is no further credit provision required in excess of the provision for doubtful debts.

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

6.5 The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above **(note 25)**.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011
	KD	KD
Investments in quoted local shares	134,112	102,537
Investments in unquoted local shares and funds	4,361,206	4,331,293
Investments in unquoted foreign shares	246,679	292,664
	4,741,997	**4,726,494**

Fair values of investments are determined by using the bases of valuation mentioned in **note 25.**

8. AVAILABLE FOR SALE INVESTMENTS

	2012	2011
	KD	KD
Foreign financial investment – unquoted	1,977,621	2,169,087

Available for sale investments represents investment in Qatar Finance House. Impairment loss of available for sale investments by KD 191,466 were recorded in consolidated statement of income for the year ended 31 December 2012 (KD 1,703,940 for the year ended 31 December 2011) based on valuation techniques as mentioned in **Note 25.**

9. INVESTMENT PROPERTIES

Investment properties are real estates located in the State of Kuwait with cost of KD 2,146,535 (KD 2,032,335: 2011). The fair value as of 31 December 2012 is amounted to KD 2,474,350 (KD 2,171,605: 2011).

The fair values of the investment properties are determined by the independent valuers.

10. OTHER RECEIVABLES AND PREPAYMENTS

	2012	2011
	KD	KD
Prepaid expenses	26,514	28,632
Staff receivables and deductions	33,064	16,413
Refundable deposits	27,451	53,300
Advance to suppliers	386,823	-
Due from related party (note 22)	214,448	214,448
Other debit balances	44,037	11,444
	732,337	**324,237**

11. 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 6.60% (31 December 2011: 7.19%) per annum.

Islamic Murabaha and Wakala payables are guaranteed against the following:

	2012	2011
	KD	KD
Investment in Murbaha receivables (note 5)	3,114,439	-
Assigning receivables (note 6)	35,553,087	23,990,904
Available for sale investment (note 8)	1,582,097	1,735,270

12. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

	2012	2011
	KD	KD
Trade payables	2,824,047	1,885,818
Accrued salaries and other staff accruals	325,698	268,539
Dividends payable	150,705	255,786
KFAS	21,270	26,367
Zakat	13,366	1,234
Others	19,201	48,456
	3,354,287	**2,486,200**

13. SHARE CAPITAL

The authorized and paid up share capital is KD 30,874,759 at 31 December 2012 (31 December 2011: KD 30,874,759) distributed over 308,747,591 shares with 100 fils per share. All shares are in cash.

14. STATUTORY RESERVE

As required by the Companies Law and the 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.

15. VOLUNTARY RESERVE

In accordance with the 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 Company. There are no restrictions on distributions from the voluntary reserve.

16. OTHER INCOME

	2012	2011
	KD	KD
Financing fee income	381,102	204,327
Rental income	127,835	83,870
Recovery of impaired loss on investment properties	-	16,760
Others	239,810	106,557
	748,747	**411,514**

17. NET INVESTMENTS LOSSES

	2012	2011
	KD	KD
Change in fair value of financial assets at FVTPL	4,813	(3,028,097)
Loss on sale of financial assets at FVTPL	-	(2,630)
Dividend income	11,031	40,380
Loss from impairment on available for sale investments	(191,466)	(1,703,940)
	(175,622)	**(4,694,287)**

18. STAFF COSTS

	2012	2011
	KD	KD
Salaries and allowances	703,449	726,663
Provision for staff indemnity	81,657	102,304
Accrual Leave	10,185	22,997
Staff bonus	100,000	112,000
Others	72,279	70,669
	967,570	**1,034,633**

19. OTHER EXPENSES

	2012	2011
	KD	KD
Management fees	3,650	22,720
Rent	114,591	122,148
Commission	61,716	34,051
Advertising	9,465	4,560
Penalties	35,000	22,500
Bank charges	5,733	6,953
Telephone charges	12,928	14,264
Cleaning and messenger costs	29,280	12,600
Internet charges	8,978	10,587
Professional legal expenses	133,734	150,613
Others	117,656	219,962
	532,731	**620,958**

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

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

	2012	2011
	KD	KD
Profit / (loss) for the year	1,195,614	(3,658,832)
Weighted average number of the Parent Company's outstanding shares	308,747,591	308,747,591
Basic and diluted earnings / (loss) per share (fils)	**3.87**	**(11.85)**

21. DIVIDENDS

The Annual General Assembly held its meeting on 31 December 2012 and approved the annual audited consolidated financial statements of the Group for the year ended 31 December 2011 and approved not to distribute any dividends.

22. 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:

		2012	2011
		KD	KD
A)	Accounts receivable	22,042	54,118
B)	Investments managed by major shareholder	3,951,237	4,436,494
C)	Due from related party (Qatar Finance House Company QPSC)	214,448	214,448
D)	Key management's benefits payable	263,650	232,907
E)	Compensation of key management personnel		
	Salaries and other short term benefits	447,816	482,919

23. 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.

2012	Finance	Investment	Unallocated items	Total
	KD	KD	KD	KD
Segment revenues	4,603,853	-	234,503	**4,838,356**
Segment expenses	(1,935,810)	(175,622)	(1,531,310)	**(3,642,742)**
Segment results	2,668,043	(175,622)	(1,296,807)	**1,195,614**
Segment assets	44,783,087	8,866,153	785,551	**54,434,791**
Segment liabilities	19,015,614	-	3,826,132	**22,841,746**

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	(4,795,696)	(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**

24. CONTINGENT LIABILITIES

	2012	2011
	KD	KD
Letters of guarantee	5,420	6,680

25. 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, cash and cash equivalents and equity, comprising paid up share capital and reserves, share premium, retained earnings and other reserves.

- ***Gearing ratio***

The gearing ratio at year end was as follows:

	2012	2011
	KD	KD
Islamic Murabaha and Wakala payables	19,015,614	14,865,413
Cash and cash equivalents	(2,470,105)	(3,368,373)
Net debt	16,545,509	11,497,040
Equity	31,585,395	30,389,781
Net debt to equity ratio	**52%**	**38%**

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

	2012	2011
	KD	KD
Financial assets		
Cash and cash equivalents	2,470,105	3,368,373
Investment in Murabaha Receivable	3,114,439	1,503,886
Accounts receivable	39,198,543	34,010,533
Financial assets at fair value through profit or loss	4,741,997	4,726,494
Available for sale investment	1,977,621	2,169,087
Other receivables	241,899	267,748
Financial liabilities		
Islamic Murabaha and Wakala payables	19,015,614	14,865,413
Accounts payables and other credit balances	3,354,287	2,437,744

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	
	2012	2011
	KD	KD
United States Dollar (USD)	1,432	197,061

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

- ***Foreign currency sensitivity analysis***

At 31 December 2012, 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 2012, 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.

	2012	2011
	KD	KD
Cash and cash equivalents	2,469,642	3,349,566
Investment in Murabaha Receivable	3,114,439	1,503,886
Accounts receivable	39,198,543	34,010,533
Other receivables	241,899	267,748
	45,024,523	**39,131,733**

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			
	High	Moderate	Past due or impaired	Total
	KD	KD	KD	KD
		31 December 2012		
Cash and cash equivalents	2,469,642	-	-	**2,469,642**
Investment in Murabaha Receivable	3,114,439	-	-	**3,114,439**
Accounts receivable (gross)	28,241,183	12,759,496	19,443,070	**60,443,749**
Other receivables	241,899	-	-	**241,899**
	34,067,163	12,759,496	19,443,070	**66,269,729**

	Neither past due nor impaired			
	High	Moderate	Past due or impaired	Total
	KD	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	267,748	-	-	**267,748**
	26,408,866	12,889,130	19,680,558	**58,978,554**

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 2012					
Islamic Murabaha and Wakala payables	1,409,019	2,076,988	6,360,883	10,071,748	**19,918,638**
Accounts payable and other credit balances	428,788	2,925,499	-	-	**3,354,287**
	1,837,807	**5,002,487**	**6,360,883**	**10,071,748**	**23,272,925**

	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**

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

31 December 2011	Level 1	Level 2	Level 3	Total
	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**

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2012