AL MANAR
FINANCING & LEASING

2017

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 2017

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Deloitte
Deloitte & Touche

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTE	2017 KD	2016 KD
ASSETS			
Cash and cash equivalents	5	2,120,943	5,391,372
Investment in Murabaha receivables	6	4,300,000	4,300,000
Finance receivables	7	32,443,754	32,532,220
Financial assets at fair value through profit or loss	8	3,871,529	3,986,457
Available for sale investments	9	1,450,536	1,641,497
Investment properties	10	1,476,535	1,476,535
Other receivables and prepayments	11	550,344	218,505
Other assets		55,843	67,754
Total assets		**46,269,484**	**49,614,340**

LIABILITIES AND EQUITY

LIABILITIES			
Islamic Wakala and Murabaha payables	12	6,492,205	10,941,448
Accounts payable and other credit balances	13	2,682,893	1,873,886
Provision for staff indemnity		1,113,417	997,159
Total liabilities		**10,288,515**	**13,812,493**

EQUITY			
Share capital	14	30,874,759	30,874,759
Share premium		312,020	312,020
Statutory reserve	15	2,000,722	1,825,064
Voluntary reserve	16	1,414,274	1,442,352
Retained earnings		1,371,544	1,340,002
Total equity attributable to the shareholders of the Parent Company		35,973,319	35,794,197
Non-controlling interests		7,650	7,650
Total equity		**35,980,969**	**35,801,847**
Total liabilities and equity		**46,269,484**	**49,614,340**

Kareem AL Taji
Chairman

Bader Al Ghanem
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 2017

	NOTE	2017 KD	2016 KD
REVENUES			
Finance revenues		3,392,583	3,733,485
Income from investment properties	17	141,935	558,840
Other income	18	349,984	365,830
Net investments (loss)/ income	19	(37,635)	65,517
		3,846,867	**4,723,672**

EXPENSES			
Finance cost		438,617	758,234
Staff costs	20	1,256,499	1,169,238
Provision for doubtful debts	7	(202,127)	537,563
Other expenses	21	597,303	544,034
		2,090,292	**3,009,069**

Profit before deductions		1,756,575	1,714,603
Kuwait Foundation for the Advancement of Sciences		(15,809)	(15,431)
Zakat		(17,906)	(16,250)
Net profit for the year		**1,722,860**	**1,682,922**
Other comprehensive income		-	-
Total comprehensive income for the year		1,722,860	1,682,922
Basic and diluted earnings per share (Fils)	22	**5.58**	**5.45**

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 2017

	Share capital	Share premium	Statutory reserve	Voluntary reserve	Retained earnings	Total	Non-controlling interest	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2016	30,874,759	312,020	1,653,604	1,356,461	1,458,169	35,655,013	7,650	**35,662,663**
Cash dividends (note 23)	-	-	-	(85,569)	(1,458,169)	(1,543,738)	-	**(1,543,738)**
Net profit for the year	-	-	-	-	1,682,922	1,682,922	-	**1,682,922**
Transfers to reserves	-	-	171,460	171,460	(342,920)	-	-	**-**
Balance at 31 December 2016	30,874,759	312,020	1,825,064	1,442,352	1,340,002	35,794,197	7,650	**35,801,847**
Cash dividends (note 23)	-	-	-	(203,736)	(1,340,002)	(1,543,738)	-	**(1,543,738)**
Net profit for the year	-	-	-	-	1,722,860	1,722,860	-	**1,722,860**
Transfers to reserves	-	-	175,658	175,658	(351,316)	-	-	**-**
Balance at 31 December 2017	30,874,759	312,020	2,000,722	1,414,274	1,371,544	35,973,319	7,650	**35,980,969**

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 2017

	NOTE	2017 KD	2016 KD
OPERATING ACTIVITIES			
Net profit for the year		1,722,860	1,682,922
Adjustments for:			
Provision for doubtful debts		(202,127)	537,563
Gain from disposal of investment property		-	(430,000)
Depreciation and amortisation		22,619	28,426
Net investments loss/ (income)		37,635	(65,517)
Income from Murabaha receivables		(58,466)	(40,836)
Finance cost		438,617	758,234
Provision for staff indemnity		**138,214**	**75,232**
Profit from operations before working capital changes		2,099,352	2,546,024
Finance receivables		290,593	4,430,779
Other receivables and prepayments		(331,839)	49,947
Financial assets at fair value through profit or loss		186,001	-
Accounts payable and other credit balances		632,687	(1,401,134)
Payments of staff indemnity		(21,956)	(44,450)
Net cash generated from operating activities		**2,854,838**	**5,581,166**
INVESTING ACTIVITIES			
Investment in Murabaha receivables		-	(1,300,000)
Murabaha income received		58,466	36,742
Proceeds from disposal of investment properties		-	1,100,000
Dividends income received		82,253	120,360
Purchase of other assets		(10,708)	(63,328)
Net cash generated from/ (used in) investing activities		**130,011**	**(106,226)**
FINANCING ACTIVITIES			
Net proceeds from Islamic Wakala and Murabaha payables		2,390,000	4,000,000
Net payment for Islamic Wakala and Murabaha payables		(6,839,243)	(7,361,463)
Dividends paid		(1,367,418)	(1,129,880)
Finance cost paid		(438,617)	(758,234)
Net cash used in financing activities		**(6,255,278)**	**(5,249,577)**
Net (decreased)/ increase in cash and cash equivalents		**(3,270,429)**	**225,363**
Cash and cash equivalents at beginning of the year		**5,391,372**	**5,166,009**
Cash and cash equivalents at end of the year	5	**2,120,943**	**5,391,372**

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 2017

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 main objectives of the parent company are as follows:

1) Provide all credit facilities operations for consumers.
2) Provide all leasing services, such as operating or financing lease.
3) Mobilization of resources for finance under leasing and arrange collective finance operations for leasing.
4) Financing consumer goods through Murabaha, Bargain or any other contracts.
5) Real estate investment operations, including development of residential land and construction of housing and commercial units and complexes & warehouses intent to sell and lease.
6) Carry out all securities related transactions.
7) Establish investment funds for the company's or third parties' account, underwrite its units, act as custodian and investment manager for investment and leasing funds at home or abroad as per the applicable laws and resolutions in the state.
8) Investing in real estate, industrial, agricultural and other economic sectors by contributing to the establishment of specialized companies or purchase of shares of these companies.
9) Conducting technical and economic studies and researches concerning employment of funds or other studies necessary to the company's activity or its clients or other parties.
10) Managing all kinds of portfolios, investing and increasing funds of its clients through employing such funds in all investment aspects locally and abroad.
11) Representing or acquiring of national and foreign companies carrying on Parent Company objectives, for the purpose of trading its financial products and services locally and abroad with no violation to Islamic Sharia and the related Kuwaiti laws and regulations.

The Parent Company is subject to instructions and monitoring 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 14 March 2018 and are subject to the approval of the Annual General Assembly of the shareholders. The General Assembly of the shareholders have authority to amend these consolidated financial statements after issuance.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) as adopted for use in the State of Kuwait for financial institution regulated by the Central Bank of Kuwait and Capital Markets Authority. The consolidated financial statements have been prepared based on the historical cost basis except for financial instruments that are measured at fair values, as explained in the accounting policies below.

2.2 Application of new and revised International Financial Reporting Standards (IFRS)

2.2.1 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- ***Amendments to IAS 7 Statement of Cash Flows that require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.***
- ***Amendments to IAS 12 Income Taxes relating to recognition of deferred tax assets for unrealized losses.***
- ***Annual improvements to IFRSs 2014 – 2016 cycle - IFRS 12.***

2.2.2 New and revised IFRS in issue but not yet effective

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	**Effective for annual periods beginning on or after**
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28.	1 January 2018
Annual Improvements to IFRS Standards 2015 – 2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	1 January 2019
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IFRS 2 Share Based Payment regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 Insurance Contracts: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to IAS 40 Investment Property	1 January 2018
IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018

IFRS 9 contains requirements in the following areas:

- Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- Impairment: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised

• Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. • Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.	
IFRS 15 Revenue from Contracts with Customers	1 January 2018
In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	
IFRS 16 Leases	1 January 2019
IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	
Amendments to IAS 28 Investment in Associates and Joint Ventures	1 January 2019
Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Management anticipates that IFRS 15 and IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2018 and that IFRS 16 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2019. The application of IFRS 9, 15 and 16 may have significant impact on amounts reported and disclosures made in the consolidated financial statements. However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Group performs a detailed review which is expected to be completed during the coming period.

2.3 Significant Accounting Policies

2.3.1 Basis of Consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Parent Company and its subsidiaries. Control is achieved when the Company (a) has power over the investee (b) is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affects its returns.

The Group reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three components of controls listed above.

Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company losses control over subsidiary. Specifically, income and expenses of subsidiary acquired or disposed of during the year are included in the consolidated statement of income or other comprehensive income from the date the Parent Company gains control until the date when Parent Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interest. 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 the Group's accounting polices.

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 Parent 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. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. 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 under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses combination are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in consolidated statement of income as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except deferred tax assets or liabilities, liabilities or equity instruments related to share based payment arrangements and assets that are classified as held for sale in which cases they are accounted for in accordance with the related IFRS.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in consolidated statement of income as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in consolidated statement of income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in consolidated other comprehensive income are reclassified to consolidated statement of income where such treatment would be appropriate if that interest were disposed off.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units

(or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in consolidated statement of income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.3.2 Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual 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 consolidated statement of income.

Financial assets

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:

- ***Financial assets at 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 or losses 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 and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 3.3.

- ***Loans and receivables***

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including finance receivables, investment in Murabaha receivable and other receivable) are measured at amortised cost using the effective interest method, less any impairment.

- ***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 consolidated statement of income when the Group's right to receive the dividends is established. Foreign exchange gains and losses are recognised in other comprehensive income.

- ***Impairment in value***

  Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired directly in consolidated statement of income when 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 investment have been affected.

  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.

  Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

A provision for impairment in value is made to address the threat of credit related to receivables when there is an objective for the Group that it cannot collect all amounts owed to them. The amount of the provision is the difference between the book value and recoverable amount of the asset which is determined based on the current value for the cash flows, taking into consideration the exclusion of the recoverable amounts of the guarantees and securities discounted based on the rate of return. The provision is recognized in consolidated statement of income.

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision of 1% of all receivables net of certain restricted categories of collateral and not subject to specific provision.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

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

For financial assets measured at amortised cost, 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 profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in consolidated statement of income.

Financial liabilities

Financial liabilities (including borrowings) are recognised initially at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

- ***Derecognition***

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated statement of income.

2.3.3 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and 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.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in consolidated statement of income in the period in which the property is derecognised.

2.3.4 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the consideration expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

2.3.5 End of service's indemnity

The Group is liable under Kuwait Labour Law to make payments under defined benefit plans to employees at termination of employment. Defined benefit plan is un-funded and is based on the liability that would arise on involuntary termination of all employees on the consolidated financial position date. This basis is considered to be a reliable approximation of the present value of the Group's liability

2.3.6 Dividends

The dividends attributable to shareholders of the Company are recognized as liabilities in the consolidated financial statements in the period in which the dividends are approved by the Parent Company's shareholders.

2.3.7 Foreign currencies

- ***Functional and presentation currency***

  Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'Kuwaiti Dinars' (KD), which is the Group's functional and presentation currency.

- ***Transactions and balances***

  Foreign currency transactions are translated into Kuwaiti Dinars using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Foreign exchange gains and losses are resulted from the settlement of such transactions and from the translation at year-end in the consolidated statement of income.

2.3.8 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns and other similar allowances.

- Murabaha and Wakala income are recognized on a weighted time appointment basis.
- Income from operating lease is recognized on a straight line basis over the term of contract.
- Dividend income is recognized when the Group's right to receive dividends is established.
- Interest income from deposits is recognized on time basis.
- Fees and commission income are recognised at the time the related services are provided

2.3.9 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 in consolidated statement of income as expenses on a straight-line basis over the lease term.

2.3.10 Zakat

Zakat is calculated according to the recommendation of the Fatwa and Shari'a Supervisory board.

The Parent Company calculates and announces Zakat payable on each share. The shareholders are responsible for the payment.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk

The Group's activities expose it to a variety of financial risks: market risks (including currency risks, fair value profit rates risk, cash flows profit rates risk, and prices risk) in addition to credit risk and liquidity risks.

The Group management for these financial risks is concentrated in continuous evaluation of market conditions and trends and assessment of long and short-term market factors.

Market risk

- ***Foreign exchange risk***

The foreign exchange risk arises from future transactions on financial instruments in foreign currency classified in the consolidated financial statements of the Group in foreign currencies.

The Group develops policies to manage the risks of foreign currency represented in monitoring changes of the currency rate as well as the impact on the Group's financial situation throughout the year.

- ***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. As of the consolidated financial statements date there are no material financial instruments in foreign currency.

- ***Interest rate risk***

The Group is not exposed to interest rate risk as the Group operate in accordance with Islamic Shariaa principles.

- ***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. The Group manages the risk through diversification of investments in terms of geographic and monitor the fair value of the Group investments on regular basis in order to take the necessary action on timely basis.

- ***Credit risk***

The credit risk is the risk that the Group will incur a loss due to the group inability to collect the debt because of counter parties fails to discharge their contractual obligations against the Group.

The credit risk is managed on the Group basis. The credit risk is highly concentrated in cash and cash equivalents, finance receivables and investment in Wakala and Murabaha receivables.

The Group manages the credit risk related to cash, Wakala and Murabaha investment, through dealing with local financial institutions with a good reputation in the market. Also the Group manages the credit risk by setting credit policies in order to avoid the concentration of credit limit via diversifying the finance portfolio over a large number of customers in addition to the identification of the necessary guarantees received from the customers as well as setting a credit approval limit.

The Group uses the collateral to reduce the exposure of credit risk to an acceptable level. The credit policy identifies the type of collateral required for each kind of transaction as well as the valuation basis for the collateral and the frequency of this valuation. The Group monitors on a regular basis the credit risk policies, the Board of Directors approves any change on the credit policies.

The below schedule sets out the assets exposed to credit risk in the statement of financial position, without taking into consideration the guarantees:

	2017	2016
	KD	KD
Cash and cash equivalents	2,089,256	5,380,713
Investments in Murabaha receivables	4,300,000	4,300,000
Finance receivables	32,443,754	32,532,220

Provision for doubtful debts is made in accordance with the Central Bank of Kuwait's instructions. Note (7) shows aging analysis of finance receivables and the provision's movement.

Liquidity risk

Liquidity risk require from the Group to keep enough balance from cash and high liquid securities, as well as by availability of funding from adequate of committed credit facility in order to make available liquidity of the Group because of dynamic of the business the Group arrange a different finance resources and manage it assets to make available the liquidity and monitor the cash flow and make available the necessary guarantee to get a finance in timely manner when required.

The table below analysis the Group's financial liabilities during the expected periods from the consolidated financial statements date. The disclosed balances are the undiscounted cash flows according to the contracting dates.

	31 December 2017		
	Within 3 months	From 3 months to 1 year	From 1 to 3 years
	KD	KD	KD
Accounts payable and other credit balances	2,682,893	-	-
Islamic Wakala and Murabaha payables	1,495,961	2,824,119	2,483,989

	31 December 2016		
	Within 3 months	From 3 months to 1 year	From 1 to 3 years
	KD	KD	KD
Accounts payable and other credit balances	1,873,886	-	-
Islamic Wakala and Murabaha payables	2,006,009	5,065,597	4,404,463

3.2 Capital risk management

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

The capital structure of the Group consists of net debt (financing offset by cash and cash equivalents) and equity (comprising capital, reserves, retained earnings and non-controlling interests).

- ***Gearing ratio***

The gearing ratio at year end was as follows:

	2017	2016
	KD	KD
Islamic Wakala and Murabaha payables	6,492,205	10,941,448
Cash and cash equivalents	(2,120,943)	(5,391,372)
Net debt	4,371,262	5,550,076
Equity	35,980,969	35,801,847
Net debt to equity ratio (%)	**12**	**16**

3.3 Fair value estimation

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

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

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

Financial assets	Fair value as at 2017	Fair value as at 2016	Fair value hierarchy	Valuation technique(s) and Key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	KD	KD				
Fair value through profit or loss:						
Local unquoted shares	3,220,978	3,258,980	Level 2	Market comparatives	N/A	N/A
Foreign unquoted shares	648,000	724,926	Level 2	Market comparatives	N/A	N/A
Local unquoted funds	2,551	2,551	Level 2	Net assets value	Net assets value	N/A
Available for sale investments:						
Foreign unquoted shares	1,641,497	1,641,497	Level 2	Market comparatives	N/A	N/A

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required):

Group's management believe that the carrying amount of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair value.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In the application of the Group's accounting policies, the 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.

Judgements:

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

- ***Classification of investments***

  On acquisition of an investment, the Group decides whether it should be classified as "at fair value through statement of income" or "available for sale". The Group follows the guidance of IAS 39 on classifying its investments.

  The Group classifies investments as "at fair value through profit or loss" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through statement of income at acquisition, when their fair values can be reliably estimated. All other investments are classified as "available for sale".

- ***Classification of real estate***

  Management decides on acquisition of real estate whether it should be classified as held for trading or investment property.

  The Group classifies property as held for trading if this is acquired principally for sale in the ordinary course of the business.

  The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation.

Sources of estimation uncertainty

The following are the key assumptions concerning the future that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years.

- ***Fair value measurements and valuation techniques***

  Certain assets and liabilities of the Group are measured at fair value for the purposes of preparing the financial statements. The Group's management determines the main appropriate techniques and inputs required for measuring the fair value. In determining the fair value of assets and liabilities, management uses observable market data as appropriate, in case no observable market data is available the Group uses an external valuer qualified to do the valuation. Information regarding the required valuation techniques and inputs used to determine the fair value of financial assets and liabilities is disclosed in note (3.3, 10)

- ***Evidence of impairment of investments***

  Management determines the impairment in equity instruments classified as available for sale when there is a significant or prolonged decline in the fair value of these investments. Determination of what is significant or prolonged requires judgment from management. The Group evaluates, among other factors, the usual fluctuation of listed stock prices, expected cash flows and discount rates of unquoted investments, impairment is considered appropriate when there is objective evidence on the deterioration of the financial position for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Note 19 shows the effect on the consolidated financial statements.

- ***Impairment of Finance Receivables***

  The Group's management determines impairment of receivables in the light of the Group's previous experience about collectability, overdue period, and change in global and local economies which led the customers to default in payment. In accordance with Central Bank of Kuwait (CBK) instructions, a minimum general provision of 1% is made on all credit facilities for which no specific provisions are provided (note 7)

5. CASH AND CASH EQUIVALENTS

	2017	2016
	KD	KD
Cash on hand	31,687	10,659
Cash at banks	2,089,256	5,380,713
	2,120,943	**5,391,372**

6. INVESTMENT IN MURABAHA RECEIVABLE

Investment in Murabaha receivables have been deposited at a local financial institutions according to Murabaha contracts. The average yield on those contracts is 1.312% per annum (1.125% - 2016).

7. FINANCE RECEIVABLE

	2017	2016
	KD	KD
Finance receivables	42,556,616	42,688,940
Less: deferred revenues	(5,615,585)	(5,598,707)
Less: provision for doubtful debts	(4,497,277)	(4,558,013)
Finance receivables – net	**32,443,754**	**32,532,220**

7.1 Finance receivables amounted to KD 21,423,217 as at 31 December 2017 (KD 23,708,772 – 2016) not matured yet.

7.2 Finance receivables amounted to KD 15,133,342 as at 31 December 2017 (KD 12,868,331 – 2016) is due from 1 to 90 and not impaired, and for which no specific provision are provided.

7.3 Finance receivables amounted to KD 6,000,057 as at 31 December 2017 (KD 6,111,837 – 2016) due and not collected and impaired are as follows:

	2017	2016
	KD	KD
91 – 180 days	386,894	1,169,113
181 – 365 days	308,197	2,016,054
Over 365 days	5,304,966	2,926,670
Total	**6,000,057**	**6,111,837**

7.4 Movement of the provision for doubtful debts

	Specific provision	General provision	Total
	KD	KD	KD
Balance at 1 January 2016	**2,069,207**	**1,635,947**	**3,705,154**
Charged during the year	838,333	14,526	**852,859**
Balance at 31 December 2016	**2,907,540**	**1,650,473**	**4,558,013**
Net charged/ (reverse) during the year	929,844	(990,580)	**(60,736)**
Balance at 31 December 2017	**3,837,384**	**659,893**	**4,497,277**

In determining the recoverability of finance 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 9,817,411 at 31 December 2017 (KD 9,362,640 – 2016) as collateral over its finance receivable.

7.5 During the current year the Group recovered an amount of KD 141,391 (KD 315,296 - 2016) from the written off finance receivables and reversed the same to the provision for doubtful debts in the consolidated statement of income.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	KD	KD
Investments in unquoted local shares	3,220,978	3,258,980
Investments in unquoted foreign shares	648,000	724,926
Investments in unquoted local funds	2,551	2,551
	3,871,529	**3,986,457**

Fair value is determined in the manner described in note (3.3).

9. AVAILABLE FOR SALE INVESTMENTS

Available for sale are foreign unquoted investments, the fair value was determined based on valuation basis (Note 3.3).

10. INVESTMENT PROPERTIES

Investment properties are real estates located in the State of Kuwait with cost of KD 1,476,535 (KD 1,476,535 – 2016). The fair value is amounted to KD 1,950,000 as at 31 December 2017 (KD 1,960,000 – 2016).

The fair value of the Group's investment property as at 31 December 2017 has been arrived at on the basis of a valuation carried out on the respective dates by independent valuers not related to the Group. The independent valuers are registered at the related governmental bodies, and they have appropriate and recent experience in the valuation of properties in the relevant locations.

The fair value of investment properties are determined based on capitalization rate of net property income and taking into account the capitalization of rental income potential, nature of the property and prevailing market conditions (level 3).

The capitalization rate is based on the observed capitalization rates of the residents and the area in which the properties are located. Income-based capitalization rates are adjusted based on knowledgeable factors that are specific to those properties. The average capitalization rate used was 7%.

A slight increase in the capitalization rate used would result in a significant decrease in fair value and vice versa. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

11. OTHER RECEIVABLES AND PREPAYMENTS

	2017 KD	2016 KD
Advanced payment for purchase of investments properties	300,000	-
Due from related parties (Note 25)	132,146	-
Prepaid expenses	23,002	25,252
Staff receivables	32,247	31,430
Refundable deposits	34,054	29,244
Others	28,895	132,579
	550,344	**218,505**

12. ISLAMIC MURABAHA AND WAKALA PAYABLES

Islamic Wakala and Murabaha payables are obtained from financial institutions and are dominated in KD.

The average cost as at 31 December 2017 is 5.48% (5.40% - 2016) per annum.

Islamic Wakala and Murabaha payables are guaranteed against pledge of the following:

	2017 KD	2016 KD
Investment in Murbaha receivables	4,300,000	4,300,000
Assigning receivables (net)	12,814,210	20,459,488
Available for sale investments	1,160,429	1,313,198
Investment properties	1,476,535	1,476,535

13. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

	2017	2016
	KD	KD
Trade payables	1,222,274	666,034
Dividends payable	881,985	705,665
Accrued salaries and other staff accruals	378,504	349,597
KFAS	52,510	51,140
Zakat	28,960	35,236
Others	118,660	66,214
	2,682,893	**1,873,886**

14. SHARE CAPITAL

The authorized, issued and paid up share capital is KD 30,874,759 distributed over 308,747,591 shares with 100 fils per share. All shares are in cash.

15. STATUTORY RESERVE

As required by the 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. INCOME FROM INVESTMENT PROPERTIES

	2017	2016
	KD	KD
Rental income	141,935	128,840
Gain from disposal of investment property	-	430,000
	141,935	**558,840**

18. OTHER INCOME

	2017	2016
	KD	KD
Financing fee income	229,816	189,112
Others	120,168	176,718
	349,984	**365,830**

19. NET INVESTMENTS (LOSS)/ INCOME

	2017	2016
	KD	KD
Change in fair value of financial assets at FVTPL	71,073	19,545
Dividends income	82,253	120,360
Loss from impairment of available for sale investments	(190,961)	(74,388)
	(37,635)	**65,517**

20. STAFF COSTS

	2017	2016
	KD	KD
Salaries and allowances	808,915	837,412
Provision for staff indemnity	138,214	75,232
Leave accruals	22,952	24,940
Staff bonus	180,000	148,000
Others	106,418	83,654
	1,256,499	**1,169,238**

21. OTHER EXPENSES

	2017	2016
	KD	KD
Rent	141,149	131,291
Professional legal expenses	129,730	143,565
Commission	6,492	8,812
Advertising	6,634	19,303
Bank charges	6,451	4,810
Telephone and internet charges	9,774	15,361
Cleaning and messenger costs	34,733	31,357
Board of Directors Committees' remunerations	60,500	59,800
Depreciation and amortization	31,009	28,426
Others	170,831	101,309
	597,303	**544,034**

22. BASIC AND DILUTED 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:

	2017	2016
	KD	KD
Profit for the year	1,722,860	1,682,922
Weighted average number of the Parent Company's outstanding shares	308,747,591	308,747,591
Basic and diluted earnings per share (fils)	**5.58**	**5.45**

23. DIVIDENDS

On 2 October 2017, the General Assembly approved the consolidated financial statements for the year ended 31 December 2016, and approved to distribute 5% for the year 2016 to be deducted from the retained earnings by KD 1,340,002 and deducted from voluntary reserve by KD 203,736, and also approved Board of Directors Committees' remunerations of KD 59,800 for year 2016.

On 12 March 2018, the Board of Directors proposed:

- 5% dividends for the year ended 31 December 2017 the contribution will be deducted from retained earnings by KD 1,371,544 and from voluntary reserves by KD 172,194.
- Board of Directors' remunerations amounting to Nil for year 2017.
- Board of Directors Committees' remunerations of KD 60,500 for year 2017.

These proposals are subject to the shareholders' approval in the General Assembly of the Parent Company.

24. SUBSIDIARIES

Group' structure is as follows:

Company name	Direct Ownership percentage		Country of incorporation	Principal activities
	2017	2016		
Manarat Tasaheel Real Estate Company W.L.L	99%	99%	Kuwait	Project Management
Al-Manar Express for Marketing Consulting Company W.L.L	50%	50%	Kuwait	Consulting activities
Al- Manar Watania for Administrative Consulting Company W.L.L	50%	50%	Kuwait	Consulting activities

Total assets of the subsidiaries are KD 1,887,531 (KD 1,559,014 for the year ended 31 December 2016), and their losses during the year ended 31 December 2017 are KD 35,751 (profits of KD 371,046 for the year ended 31 December 2016).

25. RELATED PARTIES' 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 parties' transactions are at arms length terms and are approved by the Group's management.

The related parties balances and transactions included in these consolidated financial statements are as follows:

		2017	2016
		KD	KD
A)	Finance receivables	49,308	110,880
B)	Due from related party (Note 11)	132,146	-
C)	Key Management's Benefits payable	631,091	580,036
Transaction			
D)	Compensations of key Management Personnel		
	Salaries and other short term benefits	566,354	569,982
E)	Board of Directors committees' remunerations	60,500	59,800

The Group has entered into an agreement with a related party to collect the outstanding installments from some of the finance receivables on behalf of the Group. The cash receipts from that party on behalf of the Parent Company during the year amounted to KD 759,376. The fees paid to that party amounted to KD 21,754

26. 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.

	2017			
	Finance	Investment	Unallocated items	Total
	KD	KD	KD	KD
Segment revenues	3,162,767	104,300	579,800	**3,846,867**
Segment expenses	(438,617)	-	(1,685,390)	**(2,124,007)**
Segment results	2,724,150	104,300	(1,105,590)	**1,722,860**
Segment assets	38,864,697	6,798,600	606,187	**46,269,484**
Segment liabilities	(7,714,479)	-	(2,574,036)	**(10,288,515)**

	2016			
	Finance	Investment	Unallocated items	Total
	KD	KD	KD	KD
Segment revenues	4,009,198	624,357	90,117	**4,723,672**
Segment expenses	(758,234)	-	(2,282,516)	**(3,040,750)**
Segment results	3,250,964	624,357	(2,192,399)	**1,682,922**
Segment assets	42,223,592	7,104,489	286,259	**49,614,340**
Segment liabilities	11,607,482	-	2,205,011	**13,812,493**

27. CONTINGENT LIABILITIES AND COMMITMENTS

	2017	2016
	KD	KD
Letters of guarantee	5,250	5,670
Capital commitments for purchase of real estate	550,000	-

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2017