

# AL MANAR

FINANCING & LEASING



2018



## Al Manar Financing and Leasing Company

K.S.C. (Closed)

and its Subsidiaries

State of Kuwait

### Consolidated Financial Statements and Independent Auditor's Report

FOR THE YEAR ENDED 31 DECEMBER 2018

<b>INDEX</b>	<b>PAGE</b>
Independent auditor's report	2
Consolidated statement of financial position as at 31 December 2018	3
Consolidated statement of income for the year ended 31 December 2018	4
Consolidated statement of comprehensive income for the year ended 31 December 2018	5
Consolidated statement of changes in equity for the year ended 31 December 2018	6
Consolidated statement of cash flows for the year ended 31 December 2018	7
Notes to the consolidated financial statements	8-42



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

**Independent Auditor' Report to the Shareholders**

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTE	2018 KD	2017 KD
<b>ASSETS</b>			
Cash and cash equivalents	5	1,592,152	2,120,943
Investments in Murabaha receivables	6	4,347,321	4,300,000
Finance receivables	7	29,354,290	32,443,754
Investments in financial securities	8	4,470,722	5,322,065
Investment properties	9	2,339,285	1,476,535
Other assets		307,788	606,187
<b>Total assets</b>		<b>42,411,558</b>	<b>46,269,484</b>

### LIABILITIES AND EQUITY

<b>LIABILITIES</b>			
Islamic Wakala and Murabaha payables	10	6,667,664	6,492,205
Accounts payable and other credit balances	11	2,135,990	2,682,893
Provision for staff indemnity		1,282,145	1,113,417
<b>Total liabilities</b>		<b>10,085,799</b>	<b>10,288,515</b>

<b>EQUITY</b>			
Share capital	12	30,874,759	30,874,759
Share premium		312,020	312,020
Statutory reserve	13	2,000,722	2,000,722
Voluntary reserve	14	1,242,080	1,414,274
Fair value reserve		(43,177)	-
(Accumulated losses)/ retained earnings		(2,068,295)	1,371,544
Total equity attributable to the shareholders of the Parent Company		32,318,109	35,973,319
Non-controlling interests		7,650	7,650
<b>Total equity</b>		<b>32,325,759</b>	<b>35,980,969</b>
<b>Total liabilities and equity</b>		<b>42,411,558</b>	<b>46,269,484</b>

**Kareem AL Taji**  
Chairman

**Bader Al Ghanem**  
Vice Chairman



**CONSOLIDATED STATEMENT OF INCOME**

For the year ended 31 December 2018

	NOTE	2018 KD	2017 KD
<b>REVENUES</b>			
Finance revenues		3,263,331	3,392,583
Income from investment properties		198,055	141,935
Other income	15	416,715	349,984
Net investments losses	16	(530,504)	(37,635)
		<b>3,347,597</b>	<b>3,846,867</b>

<b>EXPENSES</b>			
Finance cost		391,104	438,617
Staff costs	17	1,338,039	1,256,499
Provide/ (reversal of) provisions for credit losses	7	382,780	(202,127)
Other expenses	18	581,230	597,303
		<b>2,693,153</b>	<b>2,090,292</b>

<b>Profit before deductions</b>		654,444	1,756,575
Kuwait Foundation for the Advancement of Sciences		-	(15,809)
Zakat		(8,167)	(17,906)
<b>Net profit for the year</b>		<b>646,277</b>	<b>1,722,860</b>
<b>Basic and diluted earnings per share (Fils)</b>	19	<b>2.09</b>	<b>5.58</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	KD	KD
<b>Net profit for the year</b>	<b>646,277</b>	<b>1,722,860</b>

**Items that may be not reclassified subsequently to consolidated statement of income:**  
**Financial assets at fair value through statement of other comprehensive income:**

	2018	2017
	KD	KD
Net change in fair value	(43,177)	-
Other comprehensive losses for the year	(43,177)	-
<b>Total comprehensive income</b>	<b>603,100</b>	<b>1,722,860</b>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Equity attributable to the shareholders of the Parent Company

	Share capital	Share premium	Statutory reserve	Voluntary reserve	Fair value reserve	(Accumulated losses)/ retained earnings	Total	Non-controlling interest	Total equity
	KD	KD	KD	KD		KD	KD	KD	KD
<b>Balance at 1 January 2017</b>	30,874,759	312,020	1,825,064	1,442,352	-	1,340,002	35,794,197	7,650	<b>35,801,847</b>
Cash dividends (Note 20)	-	-	-	(203,736)	-	(1,340,002)	(1,543,738)	-	<b>(1,543,738)</b>
Net profit for the year	-	-	-	-	-	1,722,860	1,722,860	-	<b>1,722,860</b>
Transfers to reserves	-	-	175,658	175,658	-	(351,316)	-	-	<b>-</b>
<b>Balance at 31 December 2017</b>	30,874,759	312,020	2,000,722	1,414,274	-	1,371,544	35,973,319	7,650	<b>35,980,969</b>
<b>Balance at 1 January 2018 as previously presented</b>	30,874,759	312,020	2,000,722	1,414,274	-	1,371,544	35,973,319	7,650	<b>35,980,969</b>
Effect of the adoption IFRS 9 (Note 2.2.1)	-	-	-	-	-	(2,714,572)	(2,714,572)	-	<b>(2,714,572)</b>
Balance at 1 January 2018 – restated	30,874,759	312,020	2,000,722	1,414,274	-	(1,343,028)	33,258,747	7,650	<b>33,266,397</b>
Cash dividends (Note 20)	-	-	-	(172,194)	-	(1,371,544)	(1,543,738)	-	<b>(1,543,738)</b>
Net profit for the year	-	-	-	-	-	646,277	646,277	-	<b>646,277</b>
Other comprehensive loss for the year	-	-	-	-	(43,177)	-	(43,177)	-	<b>(43,177)</b>
<b>Balance at 31 December 2018</b>	30,874,759	312,020	2,000,722	1,242,080	(43,177)	(2,068,295)	32,318,109	7,650	<b>32,325,759</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2018

	NOTE	2018 KD	2017 KD
<b>OPERATING ACTIVITIES</b>			
Net profit for the year		646,277	1,722,860
Adjustments for:			
Provide/ (reversal of) provisions for credit losses		382,780	(202,127)
Depreciation and amortisation		31,661	22,619
Net investments losses		530,504	37,635
Income from Murabaha receivables		(79,803)	(58,466)
Finance cost		391,104	438,617
<b>Provision for staff indemnity</b>		<b>193,411</b>	<b>138,214</b>
Profit from operations before working capital changes		2,095,934	2,099,352
Finance receivables		10,407	290,593
Other receivables and prepayments		(23,887)	(331,839)
Financial assets at fair value through profit or loss		271,233	186,001
Accounts payable and other credit balances		(15,926)	632,687
Payments of staff indemnity		(24,683)	(21,956)
<b>Net cash generated from operating activities</b>		<b>2,313,078</b>	<b>2,854,838</b>
<b>INVESTING ACTIVITIES</b>			
Investments in Murabaha receivables		(65,000)	-
Murabaha income received		79,803	58,466
Purchase of investment properties		(562,750)	-
Dividends income received		6,429	82,253
Purchase of other assets		(9,375)	(10,708)
<b>Net cash (used in)/ generated from investing activities</b>		<b>(550,893)</b>	<b>130,011</b>
<b>FINANCING ACTIVITIES</b>			
Net proceeds from Islamic Wakala and Murabaha payables		5,750,000	2,390,000
Net payment for Islamic Wakala and Murabaha payables		(5,574,541)	(6,839,243)
Dividends paid		(2,074,715)	(1,367,418)
Finance cost paid		(391,104)	(438,617)
<b>Net cash used in financing activities</b>		<b>(2,290,360)</b>	<b>(6,255,278)</b>
<b>Net decreased in cash and cash equivalents</b>		<b>(528,175)</b>	<b>(3,270,429)</b>
<b>Transition adjustment on adoption of IFRS 9</b>		<b>(616)</b>	<b>-</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>2,120,943</b>	<b>5,391,372</b>
<b>Cash and cash equivalents at end of the year</b>	5	<b>1,592,152</b>	<b>2,120,943</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 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 Parent Company’s shares were registered on Boursa Kuwait on 11 February 2019.

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 24 March 2019 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

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the CBK in the State of Kuwait. These regulations require expected credit loss (“ECL”) to be measured at the higher of the ECL on credit facilities computed under IFRS 9 according to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards

("IFRS") as issued by the International Accounting Standards Board ("IASB"). (Collectively referred to as IFRS, as adopted for use by the State of Kuwait).

The consolidated financial statements have been prepared under the historical cost basis except for measurement of financial assets at fair value through other comprehensive income, financial assets through profit or loss.

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

### 2.2.1 New and revised IFRSs that are effective for the current year

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these consolidated financial statements.

- *Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28.*
- *IFRIC 22 "Foreign Currency Transactions and Advance Consideration"*
- *Amendments to IAS 40 "Investment Property"*
- *IFRS 15 "Revenue from Contracts with Customers"*
- *IFRS 9 "Financial Instruments"*

The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years except the impact of the application of IFRS 9.

### Impact of application of IFRS 9 "Financial Instruments"

The Group has adopted IFRS 9 'Financial Instruments' issued in July 2014 with a date of initial application of 1 January 2018, with the exception of requirements of the expected credit losses on financing receivables as noted above in Note 2.1. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The IFRS 9 brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

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

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

#### Classification and measurement of financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminated the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. The adoption of IFRS 9 did not have a significant effect on the Group's accounting policies for financial liabilities.

#### Business model assessment

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



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

The business model assessment is based on reasonably expected scenarios without taking ‘worst case’ or ‘stress case’ scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group’s original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

### **Assessment of whether contractual cash flows are solely payments of principal and profit (SPPP test)**

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPP test. ‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Profit is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers:

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

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

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

- *Financial assets carried at amortised cost*
- *Financial assets carried at FVTOCI*
- *Financial assets carried at FVTPL*

### **Financial assets carried at Amortised cost:**

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

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

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective yield method. Profit income, foreign exchange gains and losses and charge for expected credit losses are recognised in the consolidated statement of profit or loss. Any gain or loss on de-recognition is recognised in the consolidated statement of profit or loss.



## Equity investments at FVTOCI

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

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

## Financial assets carried at FVTPL

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

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

## Reclassification of financial assets

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

## Impairment of financial assets

The Group computes Expected Credit Losses ("ECL") on the following financial instruments that are not measured at fair value through profit or loss:

- *Financing receivables*
- *Balances and deposits with banks*

## Impairment of financing facilities

Financing facilities granted by the Group consists of financing receivables, letters of credit and financial guarantee contracts and commitments to grant credit facilities. Impairment on financing receivables shall be recognised in the consolidated statement of financial position at an amount equal to the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

Impairment of financial assets other than financing receivables

The Group recognises ECL on balances and deposits with banks. Equity investments are not subject to expected credit losses.



## Expected Credit losses

The Group applies a three stage approach to measure the expected credit loss as follows. Assets migrate through the following three stages based as the change in credit quality since initial recognition.

- **Stage 1: 12-month ECL**

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

- **Stage 2: Lifetime ECL – not credit impaired**

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

- **Stage 3: Lifetime ECL – credit impaired**

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

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

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

## Determining the stage for impairment

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

At each reporting date, the Group also assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be impaired when one or more events that have a detrimental impact on the estimated future cash-flows of the financial asset have occurred or when contractual payments are 90 days past due. All credit impaired financial assets are classified as stage 3 for ECL measurement purposes. Evidence of credit impairment includes observable data about the following:

- **Significant financial difficulty of the borrower or issuer.**
- **A breach of contract such as default or past due event.**
- **The lender having granted to the borrower a concession, that the lender would otherwise not consider, for economic or contractual reasons relating to the borrower's financial difficulty.**
- **The disappearance of an active market for a security because of financial difficulties.**
- **Purchase of a financial asset at a deep discount that reflects the incurred credit loss.**

At the reporting date, if the credit risk of a financial asset or group of financial assets has not increased significantly since initial recognition or not credit impaired, these financial assets are classified as stage 1.



## Measurement of ECLs

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

## Incorporation of forward looking information

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward-looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on regular basis.

## Modification of financing receivables

Under certain circumstances, the Group seeks to restructure financing to customers rather than taking possession of collateral. This may involve extending the payment arrangements, reduction in the amount of principal or profit and the agreement of new facility or financing conditions. If the modifications are substantial, such a facility is derecognised and a new facility is recognised with substantially different terms and conditions.

The facility will have a loss allowance measured based on 12 month ECL except in rare occasions where the new facility is considered to be originated - credit impaired. Management continuously reviews modified Islamic financing to customers to ensure that all criteria are met and that future payments are likely to occur. Management also assesses whether there has been significant increase in credit risk or the facility should be classified in stage 3. When Islamic financing to customers have been modified but not derecognised, any impairment is measured using the original effective profit rate as calculated before the modification of terms.

## Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost.



## Provisions for credit losses in accordance with CBK instructions

The Group is required to calculate provisions for credit losses on financing receivables in accordance with the instructions of CBK on the classification of financing receivables and calculation of provisions. Financing receivables are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A financing receivable is classified as past due and impaired when the profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value. Past due and past due and impaired financing receivables are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions.

Category	Criteria	Specific provisions
Watch list	Irregular for a period of 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances.

In addition to specific provisions, minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable financing receivables (net of certain restricted categories of collateral) which are not subject to specific provisioning.

- **Disclosures in relation to the initial application of IFRS 9 "Financial Instruments"**

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

	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39	Additional loss allowance recognised under IFRS 9	New carrying amount under IFRS 9
Financial assets	KD	KD	KD	KD	
<b>Bank balances</b>	Loans and receivables	Amortized cost	2,120,943	(616)	2,120,327
<b>Investment in Murabaha receivables</b>	Loans and receivables	Amortized cost	4,300,000	(17,679)	4,282,321
<b>Finance receivables</b>	Loans and receivables	Amortized cost	32,443,754	(2,696,277)	29,747,477
<b>Investments in equities</b>	Fair value through profit or loss	Fair value through profit or loss	3,871,529	-	3,871,529
<b>Investments in equities</b>	Available for sale investments	Fair value through OCI	1,450,536	-	1,450,536



- **Financial impact of the initial application of IFRS 9**

The following table analyses the impact of transition to IFRS 9 on equity as at 1 January 2018:

	<b>Retained earnings</b>
Closing balance under IAS 39 (31 December 2017)	1,371,544
<b>Impact on reclassification and re-measurements:</b>	
Cash and cash equivalents	(616)
Investment in Murabaha receivables	(17,679)
Finance receivables	(2,696,277)
	(2,714,572)
<b>Opening balance under IFRS 9 on date of initial application of 1 January 2018</b>	<b>(1,343,028)</b>

### 2.2.2 New and revised IFRS in issue but not yet effective and not early adopted

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
IFRS 16 Leases	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing costs.	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments in IFRS 9 Financial Instruments relating to prepayment features with negative compensation.	1 January 2019
Amendment to IAS 19 Employee Benefits relating to amendment, curtailment or settlement of a defined benefit plan	1 January 2019
Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures.	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	1 January 2020
Amendment to IFRS 3 Business Combinations relating to definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8 relating to definition of material	1 January 2020
IFRS 17 Insurance Contracts	1 January 2021
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.

The Group does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

## 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 affect 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 loses 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 policies.

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 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 (effective from 1 January 2018)**

Financial assets and financial liabilities are recognised when the Group 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 consolidated statement of income) are added to or deducted from the fair value of the financial assets or financial liabilities, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through statement of income are recognised immediately in statement of income.

#### **Financial assets**

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

### **Amortised cost and effective interest method**

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant periods.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in statement of income.

### **Financial assets at FVTPL**

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship.

### **Equity instruments designated as at FVTOCI**

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.



A financial asset is held for trading if:

- *It has been acquired principally for the purpose of selling it in the near term; or*
- *On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or*
- *It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).*

Investments in equity instruments designated as at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss will not be reclassified to statement of income on disposal of these investments, instead, they will be transferred to retained earnings.

The Group has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9.

Dividends on these investments in equity instruments are recognised in statement of income when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'investment income' line item in statement of income.

#### **Foreign exchange gains and losses**

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically,

For equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

#### **Impairment of financial assets**

##### **Impairment of financial assets other than finance facilities**

The Group applies the general approach to the creation of provisions against expected credit losses in accordance with IFRS 9 related to the financial instruments within cash and deposits in banks. The Group uses credit rating by external rating agencies to assess the credit risk exposure to these financial assets. These ratings are continuously monitored and updated.

##### **Credit facilities**

The CBK regulations require expected credit loss ("ECL") to be measured at the higher of the ECL on credit facilities computed under IFRS 9 according to the CBK guidelines or the provisions as required by CBK instructions

##### **Provisions for credit losses in accordance with CBK instructions**

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. The specific provisions are recorded based on the duration of the past due of the Credit Facility as below, net of eligible collaterals:

Category	Criteria	Specific provisions
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

### **ECL provision under IFRS 9 according to the CBK guideline**

The ECL provision is based on the credit losses expected to arise over the life of the asset (the Life Time Expected Credit Loss or LT ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' Expected Credit Loss (12m ECL).

The 12m ECL is the portion of LT ECLs that represent the ECLs that result from default events on a Credit Facilities that are possible within the 12 months after the reporting date.

Both LT ECLs and 12m ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of Credit Facilities.

The Group has established policy to perform an assessment, at the end of each reporting period, of whether a Credit Facilities' credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the Credit Facility.

The Bank classifies its Credit Facilities into Stage 1, Stage 2 and Stage 3, as described below:

- ***Stage 1: 12-month ECL***

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

- ***Stage 2: Lifetime ECL – not credit impaired***

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

- ***Stage 3: Lifetime ECL – credit impaired***

The Group measures loss allowances at an amount equal to 100% of net exposure i.e. after deduction from the amount of exposure value of collaterals determined in accordance with CBK guideline.

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

### **Significant increase in credit risk**

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or Lifetime ECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition and backstop indicators and analysis based on the Group's historical experience and expert credit risk assessment, including forward-looking information.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for financial assets, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Group may also consider that events explained below (and not restricted to) are indicators of significant increase in credit risk as opposed to a default.

- *The customer requesting emergency funding from the Group;*
- *The customer having past due liabilities to public creditors or employees;*
- *The customer is deceased;*
- *A material decrease in the underlying collateral value where the recovery of the financing is expected from the sale of the collateral;*
- *A material decrease in the customer's turnover, loss of major customers or deterioration of*



**customer financial position;**

- *The obligor (or any legal entity within the obligor's group) filing for bankruptcy application / protection or liquidation;*
- *Obligor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties;*
- *Legal measures and action against customer by other creditors;*
- *Clear evidence that the customer is unable to repay financing receivable on maturity dates;*

Other than the above staging rules, the Group also complies with the guidelines mentioned in the CBK Instruction, as follows:

- *Credit facilities are classified under Stage 2 where there has been a default in principal or profit payment for more than 30 days.*
- *All rescheduled credit facilities are classified under the Stage 2 unless it qualifies for Stage 3 classification.*

**Calculation of ECL**

The Group calculates ECL based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the Effective Profit Rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- *The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognized and is still in the portfolio. The Group uses point in time PD (PITPD) for each rating to calculate the ECL. The minimum PD is 1% for Non-Investment Grade facilities and 0.75% for Investment Grade financing facilities except for financing facilities granted to Government and banks rated as Investment Grade by an external rating agency and financing transactions related to consumer and housing financings (except for credit cards).*
- *The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities. As per CBK requirements, the Group applies 100% Credit Conversion Factor (CCF) on utilized cash.*
- *The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the financier would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.*

Other than the above LGD estimation mechanics, the Group also complies with the guidelines mentioned in the CBK Instruction, as follows:

- *The Group applies minimum 50% LGD on unsecured Credit Facility and minimum 75% LGD for unsecured subordinated financing receivable.*
- *The Group applies a minimum haircut to the collateral values as per CBK instructions.*

When estimating the ECLs, the Group considers three scenarios (a base case, upside case, and a downside case). Each of these is associated with different PDs, EADs and LGDs, as set out in this basis of preparation. When relevant, the assessment of multiple scenarios also incorporates how defaulted Credit Facilities, are expected to be recovered, including the probability that the Credit Facility will cure and the value of collateral or the amount that might be received from selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial asset, including credit cards and other revolving facilities unless the Group has the legal right to call it earlier except for financial assets in Stage 2, the Company considers a minimum maturity of 7 years for all financing

facilities (excluding consumer financing and personal housing financing which is regulated by CBK based on salary) unless financing facilities have non-extendable contractual maturity and final payment is less than 50% of the total facility extended. For consumer financings and personal housing financings, which is regulated by CBK based on salary in Stage 2, the Group considers minimum maturity of 5 years and 15 years respectively.

The mechanics of the ECL method are summarised below:

- **Stage 1:** *The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a Credit Facility that are possible within the 12 months after the reporting date. The Group calculates the 12mECL provision based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original Effective Profit Rate. This calculation is made for each of the three scenarios, as explained above.*
- **Stage 2:** *When a Credit Facility has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios. The expected cash shortfalls are discounted by an approximation to the original Effective Profit Rate.*
- **Stage 3:** *For Credit Facility considered credit-impaired, the Group recognises the lifetime expected credit losses for these facilities in accordance with the CBK requirement as below.*

ECL for Credit Facility classified under the Stage 3 has been calculated at 100% LGD on net default financing receivable balance after considering the collateral as per CBK Instruction.

- **Forward looking information**

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, gross domestic product and oil prices and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

- **Collateral valuation**

To mitigate its credit risks on Credit Facility, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as letters of guarantees, real estate securities.

To the extent possible, the Group uses active market data for valuing assets held as collateral. Assets which do not have readily determinable market values are valued using models. Real estate collaterals are valued based on valuation reports obtained from external real estate appraisers.

- **Derecognition of financial assets**

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. 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 Company 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.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of income.



## Financial liabilities and equity instruments

### Classification as debt or equity

Debt and equity instruments issued by an entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by an entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

### Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

#### Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

#### Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 'other gains and losses' line item in statement of income for financial liabilities that are not part of a designated hedging relationship.

#### Derecognition of financial liabilities

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

### 2.3.3 Financial instruments (Effective up to 31 December 2017)

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), ‘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, in consolidated statement of income. The net gain or loss recognised in consolidated statement of income 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 Islamic Wakala and Murabaha payables and Accounts payable and other credit balances) 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.

### **2.3.4 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.

### **2.3.5 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.

### **2.3.6 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.

### **2.3.7 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.

### **2.3.8 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.



### 2.3.9 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.

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

### 2.3.11 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.

#### A) 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 at 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.

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

	2018	2017
	KD	KD
Cash and cash equivalents	1,583,641	2,089,256
Investments in Murabaha receivables	4,347,321	4,300,000
Finance receivables	29,354,290	32,443,754

Note (7) shows aging analysis of finance receivables and the credit losses movement.



### Credit risk measurement

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and investment in Wakala and Murabaha Receivables. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

The Group manages the credit risk related to cash, through dealing with 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.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures require that all credit proposals be subjected to detailed screening by the relevant division prior to approval. In accordance with the instructions of the Central Bank of Kuwait setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising of competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group.

This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level. The committee, which meets regularly throughout the year, also studies the positions of these customers, in order to determine whether further provisions are required.

### Assessment of expected credit losses

The Group considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

- *the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);*
- *the borrower is past due more than 90 days on any material credit obligation to the Group; or*
- *borrower is considered as credit impaired based on qualitative assessment for internal credit risk management purposes.*

Any credit impaired or stressed facility that has been restructured would also be considered as in default.

The Group considers a variety of indicators that may indicate unlikeliness to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- *breaches of covenants.*
- *borrower having past due liabilities to public creditors or employees.*
- *borrower is deceased.*

### Significant increase in credit risk

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria's do not indicate a significant increase in credit risk.

The potential for default is that the obligor may fail to meet its obligations in the future. IFRS 9 requires the use of probability of default separately for a period of 12 months or over the life of the instruments based on the stage distribution for the obligor. The probability of default used in IFRS 9 should reflect the Group's estimate of the quality of the asset in the future.

The calculation is based on statistical models. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

### Exposure at default

Exposure at default (“EAD”) represents the amount which the obligor will owe to the Group at the time of default. The Group considers variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off balance sheet values. EAD is estimated taking into consideration the contractual terms such as coupon rates, frequency, reference curves, maturity, pre-payment options, amortization schedule, usage given default, etc.

### Loss given default

Loss given default (“LGD”) is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For all unsecured credit facilities, the Group considers a minimum of 50% LGD for senior debt and 75% LGD for subordinated debt.

### Incorporation of forward-looking information

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Group employs statistical models to incorporate macro-economic factors on historical default rates. The Group considers 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

### 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.

	2018		
	Within 3 months	From 3 months to 1 year	From 1 to 3 years
	KD	KD	KD
Accounts payable and other credit balances	2,135,990	-	-
Islamic Wakala and Murabaha payables	1,535,831	1,142,674	4,454,982



	<b>2017</b>		
	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

The table below analysis the Group's assets into relevant maturity groupings based on the expected period at the financial statements date.

	<b>2018</b>			
	Up to 3 months	From 3 months to 1 year	More than 1 year	Total
	KD	KD	KD	KD
Cash and cash equivalents	1,592,152	-	-	1,592,152
Investments in Murabaha receivable	4,347,321	-	-	4,347,321
Financing receivables	4,335,856	8,799,890	16,218,544	29,354,290
Investments in financial securities	-	3,063,363	1,407,359	4,470,722
Investments property	-	-	2,339,285	2,339,285
Other assets	-	-	307,788	307,788
	<b>10,275,329</b>	<b>11,863,253</b>	<b>20,272,976</b>	<b>42,411,558</b>

	<b>2017</b>			
	Up to 3 months	From 3 months to 1 year	More than 1 year	Total
	KD	KD	KD	KD
Cash and cash equivalents	2,120,943	-	-	2,120,943
Investments in Murabaha receivable	4,300,000	-	-	4,300,000
Financing receivables	4,686,009	10,256,767	17,500,978	32,443,754
Investments in financial securities	-	3,871,529	1,450,536	5,322,065
Investments property	-	-	1,476,535	1,476,535
Other assets	-	-	606,187	606,187
	<b>11,106,952</b>	<b>14,128,296</b>	<b>21,034,236</b>	<b>46,269,484</b>

### 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, (accumulated losses)/ retained earnings, fair value reserve and non-controlling interests).

- **Gearing ratio**

The gearing ratio at year end was as follows:

	2018	2017
	KD	KD
Islamic Wakala and Murabaha payables	6,667,664	6,492,205
Cash and cash equivalents	(1,592,152)	(2,120,943)
Net debt	5,075,512	4,371,262
Equity	32,508,909	35,980,969
Net debt to equity ratio (%)	<b>16</b>	<b>12</b>

### 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 31 December		Fair value hierarchy	Valuation techniques and Key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	2018	2017				
	KD	KD				
<b>Financial assets at fair value through profit or loss:</b>						
Local unquoted shares	2,804,783	3,220,978	Level 2	Market comparatives	N/A	N/A
Foreign unquoted shares	256,029	648,000	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
<b>Financial assets at fair value through OCI:</b>						
Foreign unquoted shares	1,407,359	-	Level 2	Market comparatives	N/A	N/A
<b>Available for sale investments:</b>						
Foreign unquoted shares	-	1,450,536	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 in equity instruments - IFRS 9 (Effective from 1 January 2018)***

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

##### ***Classification of investments (effective up to 31 December 2017)***

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, 9)



***Evidence of impairment of investments (effective up to 31 December 2017)***

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 16 shows the effect on the consolidated financial statements.

***Impairment ECL of financial assets (applicable from 1 January 2018)***

The Group estimates ECL for all financial assets carried at amortised cost or fair value through other comprehensive income except for equity instruments.

Significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- ***Determining criteria for significant increase in credit risk;***
- ***Choosing appropriate models and assumptions for measurement of ECL;***
- ***Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and***
- ***Establishing group of similar financial assets for the purpose of measuring ECL.***

Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

***Impairment of Finance Receivables (effective up to 31 December 2017)***

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

	2018	2017
	KD	KD
Cash on hand	1,583,641	31,687
Cash at banks	8,511	2,089,256
	<b>1,592,152</b>	<b>2,120,943</b>

Expected credit losses amounted to KD 616 as at 31 December 2018.

## 6. INVESTMENT IN MURABAHA RECEIVABLE

Investments in Murabaha receivables have been deposited at local financial institutions according to Murabaha contracts. The average yield on those contracts is 1.76% per annum (1.312% - 2017).

Expected credit losses amounted to KD 17,679 as at 31 December 2018.



## 7. FINANCE RECEIVABLE

	2018	2017
	KD	KD
Finance receivables	42,832,122	42,556,616
Less: deferred revenues	(5,805,525)	(5,615,585)
Less: provision for credit losses	(7,672,307)	(4,497,277)
<b>Finance receivables – net</b>	<b>29,354,290</b>	<b>32,443,754</b>

7.1 As at 31 December 2018, provisions for credit losses in accordance with the requirements of the Central Bank of Kuwait amounted to KD 4,964,170 are less than the expected credit losses for credit facilities which were calculated in accordance with the requirements of IFRS 9 in accordance with the Central Bank of Kuwait guidelines.

7.2 The movement in gross credit facilities during the current year is as follows:

	Stage 1	Stage 2	Stage 3	Total
	KD	KD	KD	KD
Balance at 1 January 2018	27,322,604	8,262,579	6,971,433	42,556,616
Net financing/ collection	2,817,045	(1,495,400)	(1,046,139)	275,506
Transfer from/ to Stage 1	(3,133,854)	2,686,087	447,767	-
Transfer from/ to Stage 2	-	(1,546,625)	1,546,625	-
Transfer from/ to Stage 3	-	561,200	(561,200)	-
<b>Balance at 31 December 2018</b>	<b>27,005,795</b>	<b>8,467,841</b>	<b>7,358,486</b>	<b>42,832,122</b>

7.3 The movement in the provisions for expected credit losses effected during the current year is as follows:

	Stage 1	Stage 2	Stage 3	Total
	KD	KD	KD	KD
Balance at 1 January 2018 as stated earlier	235,774	70,096	4,191,407	4,497,277
Impact of adopting of IFRS 9 (Note 2.2.1)	116,885	1,372,826	1,206,566	2,696,277
<b>balance at 1 January 2018 (re-stated)</b>	<b>352,659</b>	<b>1,442,922</b>	<b>5,397,973</b>	<b>7,193,554</b>
Credit losses charged during the year	349,286	(195,753)	325,220	478,753
Transfer from/ to Stage 1	(36,302)	28,837	7,465	-
Transfer from/ to Stage 2	-	(335,180)	335,180	-
Transfer from/ to Stage 3	-	486,399	(486,399)	-
<b>Balance at 31 December 2018</b>	<b>665,643</b>	<b>1,427,225</b>	<b>5,579,439</b>	<b>7,672,307</b>

7.4 The movement in the provision for doubtful debts during 2017 is as follows:

	Specific provision	General provision	Total
	KD	KD	KD
<b>Balance at 1 January 2017</b>	<b>2,907,540</b>	<b>1,650,473</b>	<b>4,558,013</b>
Charged during the year	929,844	(990,580)	(60,736)
<b>Balance at 31 December 2017</b>	<b>3,837,384</b>	<b>659,893</b>	<b>4,497,277</b>

7.5 The Group holds guarantee of KD 9,694,547 at 31 December 2018 (KD 9,778,411 – 2017) as collateral over its finance receivable.

7.6 During the current year the Group recovered an amount of KD 95,973 (KD 141,391 - 2017) from the written off finance receivables and reversed the same to the provision for doubtful debts in the consolidated statement of income.

## 8. INVESTMENTS IN FINANCIAL SECURITIES

	2018	2017
	KD	KD
<b>Financial assets at fair value through profit or loss ("FVTPL")</b>		
Investments in unquoted local shares	2,804,783	3,220,978
Investments in unquoted foreign shares	256,029	648,000
Investments in unquoted local funds	2,551	2,551
	<b>3,063,363</b>	<b>3,871,529</b>
<b>Financial assets at fair value through other comprehensive income</b>		
Unquoted foreign shares	1,407,359	-
<b>Available for sale investments</b>		
Unquoted foreign shares	-	1,450,536
	<b>4,470,722</b>	<b>5,322,065</b>

Fair value of investments has been determined in the manner described in Note 3.3.

## 9. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2018	2017
	KD	KD
Balance at 1 January	1,476,535	1,476,535
Additions during the year	862,750	-
<b>Balance at 31 December</b>	<b>2,339,285</b>	<b>1,476,535</b>

Investment properties are real estates located in the State of Kuwait.



The carrying value of investment properties represents lands value on which buildings are constructed, accordingly there is no depreciation. Group's management believes that there is no impairment on investment property as the fair value amounted to KD 2,800,000 as at 31 December 2018 (KD 1,950,000 – 2017).

The fair value of the Group's investment property as at 31 December 2018 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 average capitalization rate used was 8%.

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.

## 10. ISLAMIC WAKALA AND MURABAHA PAYABLES

Islamic Wakala and Murabaha payables are obtained from financial institutions and are dominated in KD. The average cost as at 31 December 2018 is 6.2% (5.48% - 2017) per annum.

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

	2018	2017
	KD	KD
Investment in Murbaha receivables	4,347,321	4,300,000
Assigning receivables (net)	10,403,181	12,814,210
Available for sale investments	-	1,160,429
Investment properties	2,339,285	1,476,535

## 11. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

	2018	2017
	KD	KD
Trade payables	1,270,450	1,222,274
Dividends payable	351,008	881,985
Accrued salaries and other staff accruals	396,467	378,504
KFAS	21,270	52,510
Zakat	37,127	28,960
Others	59,668	118,660
	<b>2,135,990</b>	<b>2,682,893</b>

## 12. 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.

## 13. 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.

## 14. 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.

## 15. OTHER INCOME

	2018	2017
	KD	KD
Financing fee income	246,758	229,816
Others	169,957	120,168
	<b>416,715</b>	<b>349,984</b>

## 16. NET INVESTMENTS LOSS

	2018	2017
	KD	KD
<b>Financial investments at FVTPL</b>		
Change in fair value	(528,923)	71,073
Losses on sale	(8,010)	-
Dividends income	6,429	82,253
	<b>(530,504)</b>	<b>153,326</b>
<b>Available for sale investments</b>		
Loss from impairment	-	(190,961)
	<b>(530,504)</b>	<b>(37,635)</b>



## 17. STAFF COSTS

	2018	2017
	KD	KD
Salaries and allowances	852,785	808,915
Provision for staff indemnity	193,411	138,214
Leave accruals	51,711	22,952
Staff bonus	130,000	180,000
Others	110,132	106,418
	<b>1,338,039</b>	<b>1,256,499</b>

## 18. OTHER EXPENSES

	2018	2017
	KD	KD
Rent	130,986	141,149
Professional legal expenses	136,183	129,730
Commission	7,691	6,492
Advertising	18,326	6,634
Bank charges	6,238	6,451
Telephone and internet charges	11,052	9,774
Cleaning and messenger costs	31,536	34,733
Board of Directors Committees' remunerations	55,000	60,500
Depreciation and amortization	31,661	31,009
Others	152,557	170,831
	<b>581,230</b>	<b>597,303</b>

## 19. 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:

	2018	2017
	KD	KD
Profit for the year	646,277	1,722,860
Weighted average number of the Parent Company's outstanding shares	308,747,591	308,747,591
<b>Basic and diluted earnings per share (fils)</b>	<b>2.09</b>	<b>5.58</b>

## 20. DIVIDENDS

On 23 April 2018, the General Assembly approved the consolidated financial statements for the year ended 31 December 2017, and approved the following:

- Distribution of dividends of 5% for the shareholders by KD 1,543,738 from the year ended 31 December 2017, to be deducted from the retained earnings by KD 1,371,544 and deducted from voluntary reserve by KD 172,194.
- Board of Directors Committees' remunerations of KD 60,500 for year 2017.
- Approval of the listing of the Company's shares on the Kuwait Stock Exchange as well as Stock Market outside Kuwait in accordance with the laws and decisions issued by the relevant regulatory bodies and authorize the Board of Directors to take all necessary procedures in this regard. The company was listed on the Kuwait Stock Exchange on 11 February 2019

On 24 March 2019, the Board of Directors proposed:

- Not to distribute dividends to the shareholders of the Parent Company for the year ended 31 December 2018.
- Board of Directors' remunerations amounting to Nil for year 2018 (Nil for year 2017).
- Board of Directors Committees' remunerations of KD 55,000 for year 2018 (KD 60,500 for year 2017).

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

## 21. SUBSIDIARIES

Group' structure is as follows:

Company name	Direct Ownership percentage		Activity	Country of incorporation
	2018	2017		
Manarat Tasaheel Real Estate Company W.L.L	99%	99%	Project Management	Kuwait
Al-Manar Express for Marketing Consulting Company W.L.L	50%	50%	Consulting activities	Kuwait
Al- Manar Watania for Administrative Consulting Company W.L.L	50%	50%	Consulting activities	Kuwait

Total assets of the subsidiaries are KD 2,414,964 (KD 1,887,531 as at 31 December 2017), and their losses during the year ended 31 December 2018 are KD 10,649 (losses of KD 35,751 for the year ended 31 December 2017).



## 22. 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 arm's 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:

	2018	2017
	KD	KD
<b>Balances</b>		
A) Finance receivables	100,112	49,308
B) Due from related party	144,928	132,146
C) Key Management's Benefits payable	801,563	631,091
<b>Transaction</b>		
D) Compensations of key Management Personnel		
Salaries and other short term benefits	679,150	566,354
E) Board of Directors committees' remunerations	55,000	60,500

The Group has entered into an agreement with a related party to collect the outstanding installments from some of the finance receivables on behalf of the Group. The cash collected through from that party on behalf of the Parent Company during the year amounted to KD 3,060,242 (KD 759,376 – 2017). The fees paid to that party amounted to KD 22,741 (KD 21,754 – 2017).

## 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 Finance, Investment as follows:

	2018			
	Finance	Investment	Unallocated items	Total
	KD	KD	KD	KD
Segment revenues	3,582,914	(332,449)	97,132	<b>3,347,597</b>
Segment expenses	(391,104)	-	(2,310,216)	<b>(2,701,320)</b>
Segment results	3,191,810	(332,449)	(2,213,084)	<b>646,277</b>
Segment assets	35,293,763	6,810,007	307,788	<b>42,411,558</b>
Segment liabilities	(7,938,114)	-	(2,147,685)	<b>(10,085,799)</b>

	2017			
	Finance	Investment	Unallocated items	Total
	KD	KD	KD	KD
Segment revenues	3,667,280	104,300	75,287	<b>3,846,867</b>
Segment expenses	(438,617)	-	(1,685,390)	<b>(2,124,007)</b>
Segment results	3,228,663	104,300	(1,610,103)	<b>1,722,860</b>
Segment assets	38,864,697	6,798,600	606,187	<b>46,269,484</b>
Segment liabilities	(7,714,479)	-	(2,574,036)	<b>(10,288,515)</b>

## 24. CONTINGENT LIABILITIES AND COMMITMENTS

	2018	2017
	KD	KD
Letters of guarantee	5,250	5,250
Capital commitments for purchase of real estate	-	550,000



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