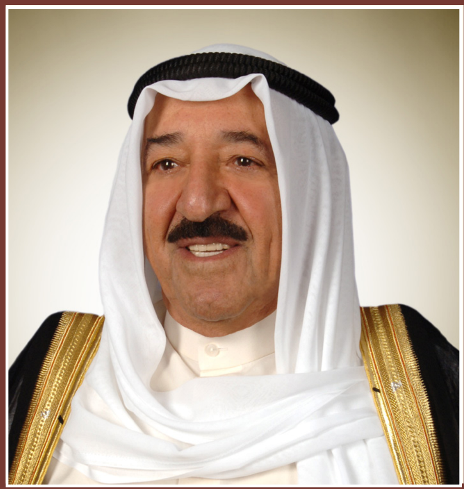
أعيان

شركة أعيان للإجارة والاستثمار ش.م.ك.ع.

A'AYAN LEASING & INVESTMENT CO. K.S.C.P

Annual Report 2018

بِسْمِ اللَّهِ الرَّحْمَٰنِ الرَّحِيمِ



His Highness Sheikh

Sabah Al-Ahmed Al-Jaber Al-Sabah

Amir of the State of Kuwait

His Highness Sheikh

Nawaf Al-Ahmed Al-Jaber Al-Sabah

Crown Prince of the State of Kuwait

Fatwa and Sharia Supervisory Board

Sheikh Prof. Sayed Mohammad A. Al-Tabtabae
Chairman of Fatwa and Sharia Supervisory Board

Sheikh Prof. Ahmad H. Al-Kurdi
Fatwa and Sharia Supervisory Board Member

Sheikh Prof. Nayif Al-Haja Al-Ajmi
Fatwa and Sharia Supervisory Board Member

Board of Directors

Mr. Fahad Ali M. Thunayan Al-Ghanim
Chairman

Mr. Abdulaziz Nasser Al-Marzoq
Deputy Chairman

Mr. Khalid Bader Al-Romi
Board Member

Mr. Reyad Nasser Al-Bader
Board Member

Mr. Nasser Ibrahim Borousli
Board Member

Mr. Talal Reda Behbehani
Board Member

Mr. Mansour Hamad Al-Mubarak
Board Member and CEO

Chairman’s Speech for the Fiscal Year 2018

In the name of Allah, praise be to the Almighty, peace and blessings upon Prophet Mohamed, the best honorable of all mankind, his family, companions and followers.

Dear Shareholders ... Peace and Blessings of Allah be upon you,

It is my greatest pleasure to welcome you at this Annual General Meeting to present the Annual Report of A’ayan Leasing & Investment Company, Sharia Supervisory Board’s Report, Corporate Governance Report, the Internal Control Report, the Auditor’s Report and the financial statements for the year ended 31 December 2018.

2018 was not much better than 2017, political crises and uncertainties in the Middle East continued to adversely impact investors’ sentiment in the investment, real estate and other investment sectors in general.

On the domestic level, despite improvement in oil prices during the past two years, the price of Kuwaiti oil per barrel has fallen by about 16.6% during the past period. For sure, this decline will adversely impact the pace of the government spending. In other context, although the real estate trading was relatively better in 2018 compared to 2017, the real estate activity remains in a state of volatility and uncertainty that dominates the expectations of the real estate market performance on the grounds of the modest performance of the investment real estate sector, retail real estate sector and commercial real estate sector and major decline in rental values due to high supply and low demand.

All prevailing circumstances associated with the Company’s business activities have not weaken our firm determination for moving forward and our strict commitment to the Restructuring Plan and to try to find fundamental solutions to the remaining portion of the Company’s debts. We deal with creditors in full transparency; informing them of the latest updates regarding the Restructuring Plan and the extent of Company’s capability to adhere to the Preset Plan. Within our future outlook, we look forward to ensure success of the cooperation and coordination between the Company and its creditors in the serious efforts towards restructuring.

With this in mind, the Company has succeeded in repaying KD 14 million, including KD 10 million of the principal debt amount plus KD 4 million accrued debt profit to creditors.

By the end of 2018, The Company managed to achieve total revenues of KD 30 Million resulting in net profit of KD 3 Million.

The following table highlights profits and the key performance indicators for the year ended 31/12/2018.

	2018	2017	Change (%)
Net profit / (loss) in KD	**3,029,336**	(850,114)	456%
Total Revenues in KD	**30,220,087**	16,515,042	83%
Total Expenses in KD	**23,727,256**	18,942,230	25%
Total Assets in KD	**307,055,819**	312,839,821	-2%
Total Liabilities in KD	**186,270,355**	195,402,554	-5%
Ratio of Total Liabilities to Total Assets	**60.7%**	62.5%	

In conclusion, the last seven years since signing the Restructuring Plan and the Company's commitment to raise liquidity despite the domestic slowdown of the economic sectors clearly demonstrate the Company's strong determination and seriousness in honoring its obligations towards creditors. Nonetheless, the biggest challenge facing the Company in the coming period will be to raise the required liquidity for meeting the remaining obligations under the Restructuring Plan. We confirm our commitment in serving our shareholders and all stakeholders.

Fahed Ali Mohammed Thunayan Alghanim
Chairman of Board of Directors

CEO Speech

In the Name of Allah, the Most Merciful, the Most Compassionate, Thanks to Allah, Prayers and Peace be Upon His Prophet, Companions, and Good Followers till the Day of Judgment.

Our Valued Shareholders; May Peace, Mercy, and Blessings of Allah be upon you.

On behalf of the Executive Management of A'ayan Leasing and Investment Company, I have the pleasure to present this report highlighting the Company's key financial indicators for the financial year ended 31 December 2018 and to briefly highlight the updates on key financial and economic developments in year 2018.

Overview of the Economic Situation During 2018

First: Global Situations

Published reports and researches on the performance of global economy reveal that the global economy managed to achieve a growth of 3%, the best growth achieved since 2011. However, as monetary policies settle and begin to normalize in the next couple of years, growth in most advanced economies is expected to decline to levels below pre-financial crisis era. Several downside risks highlighted in the IMF April 2018 report such as rising trade barriers and reversal of capital flows to emerging markets which have become more prominent or have materialized partially. .

Although the growth prospects for US continues to be strong, it is expected to grow at a lesser percentage than April 2018 IMF estimated projection of 2.9% in 2018 and 2.7% in 2019 (revised to 2.5% in 2019 due to the recent trade tensions).Improving macroeconomic conditions in terms of inflation, strong job creation and fiscal stimulus are all expected to influence the US Federal Reserve to continue the course of gradual policy normalization. As projected, the US hiked its Federal Funds Rate four times during 2018. Tighter monetary conditions may potentially trigger disruptive asset correction, sharp exchange rate movements, and further reductions in capital inflows to emerging markets. The Federal Reserve intends on hiking interest rates once every quarter until mid-2019, where it believes the funds rate will be in equilibrium (neutral) at around 3%.

On the other side the Euro zone continued to apply negative interest rates strongly impacted by the Brexit and the recently announced Italian debts.

From a growth perspective, China and India remained the drivers of global growth although the Chinese economy is showing weaknesses. The Chinese economy, which grew at 6.6% in 2018, is forecasted to grow at 6.0% in 2019 and 2020. The Chinese Government is trying to move away from investment and export driven growth to consumption and domestic demand driven growth model. However, the shift is likely to take some time and till then the slowdown in growth is expected to persist.

Second: Regional Situations

Energy prices have increased since March, mostly driven by higher oil prices. This was a result of tight supply conditions and sustained economic activity which took place in the first half of 2018 and which pushed oil prices in May and June to their highest levels since November 2014. Since then, higher production in Saudi Arabia and Russia along with US waivers on Iran sanctions have rebalanced the oil market which has dropped the price to around $54 per barrel, as of December 2018 after seeing a number of increases to reach $64 per barrel.

As per November 2018 Regional Economic Outlook for the Middle East & Central Asia, the IMF forecasts real GDP for the GCC region to grow by 2.4% and 3.0% for 2018 and 2019, respectively. The estimates were revised higher (by 0.6% and 0.5% respectively) in May 2018 forecast due to oil-GDP growth, which is expected to grow as Saudi Arabia, UAE, and Kuwait's oil-GDP growth witnessed higher revisions in 2018, while the same is expected for Oman in 2019. Non-oil GDP growth for the GCC in 2018 was left unchanged at 2.7%, while the 2019 estimate was revised up (by 0.2%) to 2.9%. Non-oil GDP growth for the region is supported by development of public investment projects such as the five-year development plan in Kuwait, Qatar's infrastructure investments projects (FIFA 2022 World Cup) and ongoing preparations for Expo 2020 in the UAE. The implementation of the value-added tax in Saudi Arabia and the UAE is welcomed by the IMF and is believed to mobilize non-oil revenues that will ultimately reduce reliance on commodity-related revenues and strengthen fiscal resilience.

Third: Kuwait - Domestic Conditions

The government continued its focus on infrastructure development projects providing a boost to construction activities and private sector lending activities. The government awarded projects worth USD 11 billion in 2017 and USD 6 billion in 2018.

Reports and statistics on the operating environment reveal that the local operating environment is optimistic due to the improvement in growth forecasts and fiscal position because of the increase in oil prices between Q1 and Q3 of 2018. The IMF has forecasted a real GDP growth of 2.3% in 2018 and 4.1% in 2019 (2017: -3.3%) which is expected to be largely driven by investment expenditure. However, with the recent fall of oil prices, fiscal position is expected to weaken following a large surplus recorded between April and October 2018. It is worthwhile mentioning in this context that any drop on oil prices will negatively impact the capital markets. Uncertainties associated with the performance of domestic economy are always attributable to the downside risks from dropping oil prices and their negative implications on government expenditures.

Fourth: Performance of Financial Markets

Published reports on the performance of financial markets in MENA region (Middle East and North Africa) reveal that the stock markets in MENA region saw positive performance in 2018 in spite of the drop in oil prices and the uncertainties global financial markets have witnessed over 2018. Standard and Poor's GCC Composite Index shows an increase of 11.47% for the year 2018 supported by the strong performance of Saudi Arabia and Abou Dhabi stock markets with Kuwait Stock market (Boursa Kuwait) ranked as the fourth best performer among GCC stock markets during 2018.

Fifth: Financial Indicators

During the year 2018, the Parent Company (Aayan Leasing & Investment Company) achieved net profit of KD 3.0 million at 3.78 Fils Earnings per share and its equity reached KD 81.8 Million as at the end of year 2018, with an increase of 4.7 % as compared to KD 78.2 as at 2017 year end.

Aayan Group reported with its consolidated total assets and total liabilities of KD 307 Million and KD 186 Million respectively as at the end of year 2018.

The Company has continued to focus on its various operations realizing profits. Below is a summary of our sector-wise & other achievements during the year.

Sixth: Progress on Corporate Governance Standards and Rules

Compliance with the regulatory requirements and application of effective and proactive internal controls has always been a priority for Aayan Leasing and Investment Company. As such, the Company prepares the necessary reports to meet all the standards and rules related to the implementation of corporate governance and takes into account the guidelines and instructions issued by the Capital Markets Authority. In accordance with the CMA requirements, a detailed report on governance is included in the Company's annual report.

Seventh: Company Activities

The Leasing Sector:

The leasing sector continued to achieve high operational performance in 2018 that witnessed remarkable growth in operational revenues, significant increase in net profit and gross profit compared to previous year. A'ayan Leasing Holding Company made further progress in its business with an increase in operational revenues to KD 32,515,662 for 2018.

The total profit grew at 9% reaching KD 7,859,282 for 2018 compared to KD 7,189,640 for 2017. Gross profit margin grew at 24% for 2018, an excellent rate compared to 22% for 2017. The Company achieved high net profit at 29% increase reaching KD 5,341,122 for 2018 compared to KD 4,141,358 for 2017. Shareholders equities grew at 2% reaching KD 34,583,799 at 2018 end compared to KD 33,816,038 at 2017 end.

In the course of diligent endeavours for developing its services and providing classy and enjoyable experience for operational leasing customers, A'ayan Leasing Holding Company has introduced and developed a range of modern online services that contribute in accelerating transactions conclusion and making things much easier for customers. In addition, The Company launched several marketing campaigns throughout the year, that were tailor - made to attract new customer segments, in addition to focusing on presence at customers-gathering destinations.

The Leasing Sector (represented by A'ayan Leasing Holding Company)- boosted its intensive efforts in the operational leasing and signed a number of mega deals during the year with some major car dealers, allowing the Company to diversify vehicle brands and models offered to corporate, government and individual customers and provide robust competitive services and products to customers favouring them with the highest level of luxury and quality service. A'ayan Kuwait Auto Company, subsidiary of A'ayan Leasing Holding Company, has won several major deals and tenders added to its diverse outstanding achievements in the Kuwaiti market. The Company has also managed to sell a large number of used cars through cooperation with various financing institutions.

A'ayan Leasing Holding Company continued its efforts to provide all possible support to its subsidiaries both inside and outside Kuwait to help them develop their business and set plans and to overcome any obstacles they may face. This approach resulted in rapid and remarkable development in the businesses of subsidiaries of A'ayan Leasing Holding Company where focus is given to the development and expansion of subsidiaries business in all aspects of car rental, whether long, medium or short terms (daily and weekly).

A'ayan Leasing Holding Company is a fully owned and operational arm of Aayan Leasing & Investment Co. in the automotive sector and related services managing the Company's auto services and Fleet in Kuwait and abroad. Aayan Leasing Holding Company owns many subsidiaries of which the most important are: Aayan Kuwait Auto Company specialized in leasing and selling used cars, Budget Car Rentals; an international lease agency focusing on short and medium term leasing, Rekab Rent-A-Car a company specialized in short and medium term leasing, Aayen Garage; the main center specialized in repairing and maintaining A'ayan's car fleet. Aayen Garage is equipped with the state-of-the-art equipment and tools and operates in Kuwait through two branches in Shuwaikh Industrial area and Ahmadi governorate.

Real Estate Department

In 2018, the real estate investment market experienced a decline in both rental values of the investment properties and the demand for residential units due to the high supply and the low demand. This was accompanies with the State of Kuwait Government Plan for localizing of jobs by terminating the services of expatriates and replacing them with Kuwaiti citizens.

As for the vocational plots owned by the Company in Ardiya and Abu Fataira areas, 2018 witnessed demand from real estate dealers in these regions due to stability of the rate of return on property and increase of investors' demand for rental units. This led to increasing rental value of these units which, in turn, resulted in increasing the operating revenues from KD 2.491 million in 2017 to KD 2.626 million, or at a growth of 5.4%.

Al Jahra Commercial Mall Project:

A'ayan Leasing and Investment Company owns 78.53% of Al Jahra Mall. Through the leasing marketing Plan for the Mall units, the leasing rate reached 82.31% by the end of 2017 from the total leasing area of 16.427.44M2. By the end of 2018, the leasing rate reached 92.41% i.e. at 10% increase from 2017.

Investment Sector:

The Investment Sector is one of the main pillars of A'ayan Leasing and Investment Company, with subsidiary and associate companies playing a vital role in enhancing the Company's profitability and cash flows.

During the year, the Company managed to exit several investments in the Sultanate of Oman in a deal totalling KD 2.9 million resulting in approximately KD 1 million gain for the Company. This amount was mainly allocated for instalment payments to the Company's creditors.

As for the Company's main investments, A'ayan Real Estate Company, owned by A'ayan at 57.78%, managed to reverse the negative results in 2017 and achieved a net profit of KD 5.94 million in 2018. This profit is mainly a result of the valuation of Yal Mall, that experienced a significant occupancy rate increase. In light of these positive results and robust cash flows, the Board of Directors of A'ayan Real Estate Company has proposed the distribution of cash dividends of 5 fils per share to the shareholders' General Assembly.

Mubarrad Holding Company has maintained positive results thus achieving its objectives and realizing a net profit of KD 1.67 million for 2018. The Board of Directors has proposed cash dividends of 5 fils per share and 5% bonus shares to the shareholders' General Assembly.

We have continued monitoring our investments in associates, with Mashaer Holding Company witnessing management changes. The new management of the Company is working on implementing the Board of Directors' plan and addressing several outstanding issues in respect of some assets, particularly real estate investments in the Kingdom of Saudi Arabia that greatly affected the Company's results last year. Abyaar Real Estate Development Company is facing significant liquidity challenges. The assets of the Company are heavily affected by the real estate market in Dubai. The Company has experienced major management changes. We hope that 2019 will witness solutions to many of the company's liquidity problems thus helping to achieve positive results for A'ayan Leasing and Investment Company.

Asset Management Department

The Asset Management Department "AMD" in A'ayan Leasing and Investment Company continues to monitor, improve and develop investment portfolios and real estate funds. The AMD monitors and undertakes several investments across countries such as the State of Kuwait, the Arab Republic of Egypt, the United Arab Emirates and others. In the past, the AMD has strived to develop these products' related projects, improve their performance and liquidate some of them. As for investment portfolios, the Company management has initiated an action plan to restructure these investments after the gazette of regulations governing collective investment schemes. The Company is continuously working to align these investment products in accordance with the timeframe set by the Capital Markets Authority.

The Awaed Real Estate Fund continues to serve its customers by offering them competitive returns compared to several investment products in the local market. Awaed is characterized by monthly dividends and competitive returns compared to the real estate sector and peer funds in Kuwait. In this regard, the AMD continues focusing on improving the Fund's assets' performance to maintain asset levels despite the decline in the real estate sector's performance. The Fund has achieved a positive performance compared to that of peer funds and the local real estate sector in 2018.

In 2018, the Company initiated the liquidation process of the Egypt III Portfolio. The Company offered investors a number of investment exit options. 78.32% of investors have exited the portfolio, and the Company continually communicates with other investors to provide them with liquidation developments and completely terminate the investment. The portfolio had invested in a real estate project in the 5th Settlement District, the Arab Republic of Egypt, at a prestigious location opposite the American University in Cairo campus. However, the political and economic conditions accompanying the project have led to the delay in the project's completion on time.

As for the Egypt IV Portfolio, the Company has reached an agreement with the project's shareholders for a portfolio exit based on an evaluation initiated to determine the final value of the portfolio as a preliminary plan to start the portfolio liquidation process. The Company is currently developing an appropriate mechanism to liquidate the portfolio and to find appropriate exit options for the portfolio's clients. The Project, for which the portfolio was established, is located in Sheikh Zayed District, Egypt, opposite the Ahli Club's new building . The Project consists of three phases comprised of 584 residential units and shops.

Eight: Future Outlook

A'ayan Leasing and Investment Company will continue its efforts to meet its obligations towards creditors as well as to enhance the financial position of the Company. It will further enhance its blueprint and market share amidst investment companies in Kuwait despite the regional uncertainties which negatively affect the leasing and investment activities.

Ninth: Conclusion

In conclusion, I would like to express my sincere thanks to: the Company's shareholders for their confidence and continued support, A'ayan customers for their trust in our services and products, and to the regulatory authorities seeking to set frameworks for mitigating risks. I would also like to extend my thanks to all Company's staff for their outstanding performance and dedication to work.

I would extend my sincere thanks to the Chairman and Members of the Board of Directors for their continuous support for Company's Executive Management.

Mansour Hamad Al-Mubarak
Board Member and CEO

Sharia Supervisory Board Report

Date 6th Jumada Akhar 1440 AH
11 February 2019
Shura Sharia Consultancy

بسم الله الرحمن الرحيم

In the Name of Allah, the All Compassionate, the Most Merciful
External Sharia Audit Report for A'ayan Leasing and Investment Company for the fiscal Year Ended 31 December 2018

Dear Shareholders of A'ayan Leasing and Investment Company
Peace & blessing be upon you

Based on our appointment and assignment to undertake external Sharia audit for A›ayan Leasing and investment Company, we hereby present our report as below:

First: Description of the Assignment:

We have examined and reviewed the principles applied and the contracts used for the transactions and products concluded by the Company during the fiscal year ended 31 December 2018 to express an opinion as to the extent of the Company's compliance with Sharia Rules and Principles as per the rulings, Fatwas, guidelines and decisions set by the Company›s Sharia Supervisory Board.

Second: The Company›s Responsibility

The Company's management is responsible for compliance and ensuring compliance, in all operations, with the Islamic Sharia Rules and Principles as per as per the rulings, Fatwas, guidelines and decisions set by the Company's Sharia Supervisory Board.

Third: External Sharia Auditor's Responsibility:

Our responsibility is to express an opinion on the Company's compliance with the rules and principles of Islamic Sharia, based on the Sharia audit activities we have undertaken. We conducted our external Sharia audit in accordance with the Capital Markets Authority instructions, the Corporate Governance instructions issued by the Accounting and Auditing of Islamic Financial Institutions (AAOIFI) and Fatwas and Decisions issued by the Company's Sharia Supervisory Board.

Our responsibility requires that we comply with the code of ethics, plan and perform the external Sharia audit activities to obtain reasonable assurance that the Company is in compliance with the rules and provisions of Islamic Sharia.

Fourth: Description of the External Sharia Audit:

In performing our audit, we plan the activities of the Sharia audit, carried out the audit work and procedures and follow the established professional methods. The external Sharia audit include examination of the Company Sharia control system.

We have further examined the Company's operations and its transactions in securities and obtained the necessary clarifications and evidence to ensure that these transactions are in compliance with Fatwas, decisions and guidelines issued by the Company's Sharia Supervisory Board. Our audit included reviewing the Company's annual financial statements and the explanatory notes thereof.

We believe that the evidences we have obtained are sufficient and appropriate to provide basis for our opinion.

Fifth: The areas in the company responsible for conducting the transactions that have been audited and the phases till completion:

We have conducted the external Sharia audit by means of several field visits to the Company, the most recent of which was on 11/2/2019, for the responsible areas in the Company including the following:

- Asset Management Department
- Financial Control Department

- Investment Department
- Compliance Department
- Treasury Department
- Information Technology Department
- Real Estate Department
- Human Resource Department

We conducted our audit through the following stages:

- Survey of the audit areas
- Survey of contracts and transactions executed in each field
- Test-based audit
- Preparation of Sharia audit programs and forms
- Field Audit
- Recording notes obtained from the audit process.
- Preparation of the External Sharia Audit Report and Recommendations (Draft Report) and Company›s Comments (if any).

Ensuring that the Company›s management is committed to take remedy action as per the observations/ findings of the Sharia audit (if any).

Sixth: Our Opinion

In our opinion, the contracts and transactions concluded by the Company during the fiscal year ended 31 December 2018 were carried out in accordance with the principles and provisions of Islamic Sharia as set forth by the Company›s Sharia Supervisory Board

Allah, the almighty, is the best guardian

Shura Sharia Consultancy Company

Abdul Sattar Ali Al-Qattan

Approval of the Sharia Supervisory Board eminence members		
Sheikh Prof. Sayed Mohamed A. Al- Tabtabae, Chairman of Sharia Supervisory Board	**Sheikh Prof. Ahmad H. Al Kurdi,** Member of Sharia Supervisory Board	**Sheikh Prof. Naif Al Hajaj Al Ajmi,** Member of Sharia Supervisory Board

Corporate Governance Report 2018

Introduction

Corporate Governance is defined as "a set of rules, principles, processes and systems that govern the relations of the Company's executive management, board of directors, shareholders, other stakeholders and related parties with the aim of documenting professional and ethical code of conduct, control and accountability and ensuring sound managerial organization.

A'ayan's corporate governance framework is based on five key pillars as follows: "Accounting, Transparency, Equality, Sustainability and Confidentiality". These pillars in combination constitute the governance culture in our financial and business transactions and practices. They also regulate the relationship between Company, shareholders, the board of directors, the executive management, the employees and any related parties. These pillars also represent the basic approach of A'ayan's employees in performing their daily duties to maintain compliance with the laws governing the Company's business, the rules of professional and ethical conduct within the framework of Islamic Sharia principles.

The legal and regulatory framework of A'ayan's Management Approach is derived from the provisions of the Companies Law and the principles of "Corporate Governance" rules stipulated in the Executive Regulations of Capital Market Authority's Law No. 7 of 2010 for the incorporation of the Kuwait Capital Markets Authority "CMA" and organization of securities activities as amended. As such, the policies and procedures of the Company have been developed in line with Corporate Governance Rules issued by Kuwait Capital Markets Authority (CMA) keeping into account the Company's obligations to provide CMA with a report on compliance with the principles of corporate governance within the set timeframe.

Rule I

Constructing a Balanced Board Composition

.

- **Board Composition**

The Company is managed by an elected Board of Directors regulated by the Company's Articles of Association in terms of the manner of the board formation, the number of its members and the tenor of membership. The Board Members have the appropriate expertise to carry out their functions effectively in the interest of the Company. They dedicate sufficient time and efforts to deliver their duties as stipulated in the Articles of Association and the approved internal Board Charter.

The board of directors is committed in establishing a general governance framework and supervising the mechanism of its implementation in accordance with the rules of professional and ethical conduct in line with Islamic Sharia principles in a manner that serves shareholders' interests, protects and promotes their rights. The Board of Directors has approved the financial and managerial authority matrix that determine the powers and authorities delegated to the Company's executive management to ensure taking and supervising the necessary decisions for the Company's business quickly.

The Board of Directors

The Board of Directors of A'ayan consists of a mixture of experts in various financial and investment fields as shown in the following table:

Board Member	Position	Educational and Practical Experience	Election/ Appointment Date
Mr. Fahed Ali Mohammed Thunayan Al-Ghanim	**Board Chairman**	Mr. Fahed Ali Mohammed Thunayan Al-Ghanim has more than 14 years of professional experience in key positions for managing investment companies inside and outside the State of Kuwait covering various fields of finance, banking, investment and trade activities. He held several positions in various companies such as: • Member of Kuwait Finance House Board of Director, Member of the Audit & Compliance Committee since 2014. • Chairman of the Investment Committee at KFH since 2018; • Member of the Merger Committee at KFH since 2018 • The Chief Executive Officer of Ali Alghanim & Sons Automotive Company since 2005. • Vice Chairman of the Board of Directors of Al-Ahlia Heavy Vehicles Selling & Imports Company (MAN TRUCKS) since 2011. • Member of the Board of Directors of McLaren Agents Representatives from 2010 to 2015. • Member of the Board of directors of Kuwait Building Materials Manufacturing Co. since 2004. • Member of the Board of Directors and Fund Custodian of Kuwait Sporting Club since 2007. • Member of the Board of Directors of the Universal Payment Services (UPS) since 2005-2011 • Member of the Board of Directors of Al-Oula Abattoirs Co . W.LL Since 2003-2005 • Member of Kuwait Engineers Society since 2003 Al-Ghanim completed his studies in Kuwait having BA degree in Civil Engineering from Kuwait University and then started his career as CEO of Alghanim & Sons Group of companies - Contracting Sector. He then held several key positions in various companies and institutions on which he had significant impact on their profitability, growth and financial position.	**01/05/2017**
Abdulaziz Nasser Al-Marzouq	**Deputy Chairman**	Abdulaziz Al-Marzouq has more than 20 years of professional experience in fields of financial and banking business, where he held many leading positions in several institutions inside and outside the State of Kuwait in various investment, commercial and financing activities throughout that period. Mr. Abdulaziz Al Marzouq holds Several positions in many companies, including: Al Marzouq was graduated from San Jose University, California, USA with a Bachelor of Finance and later received an MBA from London Business School, UK .	**01/05/2017**

Board Member	Position	Educational and Practical Experience	Election/ Appointment Date
Mansour Hamed Al-Mubarak	**Board Member & CEO**	· Al-Mubarak has more than thirty years of professional experience in the financial sector, where he held many leading positions throughout the period. He holds the following positions: • Chairman of A'ayan Real Estate Company. • Member of the Board of Directors of Mashaer Holding Company. • CEO of Aayan Leasing & Investment Company. A-Mubarak completed his studies in the United States of America with a Bachelor of Business Administration - Finance from Western Michigan University, USA. Mr. Mubarak has dedicated his time and efforts for developing and strengthening the financial position of the company, maximizing revenues, maintaining shareholders' equities and working on commitment of the Company' Financial Rescheduling Plan.	**01/05/2017**
Talal Mohammed Reda Behbehani	**Independent Member**	Talal Behbehani has professional experience in both investment and commercial fields that enables him to serve as an independent member of the Board of Directors of Aayan Leasing and Investment Company. He has more than 25 years of experience in executive and leading positions at various banking and financial institutions inside and outside Kuwait. Talal Behbehani holds many positions in various companies including: • Chairman of the Board of Directors of Al-Ahli Bank of Kuwait. • Vice Chairman of Kuwait Insurance Company. • General Manager of Mohammed Saleh and Reza Yousef Behbehani. • General Manager of Behbehani Mercantile Motors. • Member of the Board of Directors of Al Mulla & Behbehani Auto Company. Behbehani completed his study in the State of Kuwait having BA degree from the Faculty of Arts, English Language, Kuwait University. He was a member of the Board of Directors of the Industrial Bank of Kuwait from 2003 until 2007.	**01/05/2017**
Riyad Nasser Al-Bader	**Non- executive member**	Riyad Nasser Al-Bader has more than 32 years of professional experience. He held many leading and executive positions in various financial and banking institutions including the Commercial Bank of Kuwait and Kuwait Finance House. He is a Senior Private Finance Manager at Finance House. Riyad Al-Bader holds a Higher Diploma in Banking Sciences from the Institute of Banking Studies in Kuwait	**01/05/2017**

Board Member	Position	Educational and Practical Experience	Election/ Appointment Date
Nasser Ibrahim Boresli	Non Executive	Boresli has more than 16 years of experience in the financial and banking sector. He has gone through career development at the Commercial Bank of Kuwait to take up the position of Senior Executive Manager, Commercial Credit Sector. Mr. Boresli graduated from University of San Bernardino, California, USA having BA in Management - with focus on public administration.	01/05/2017
Khaled Bader Al-Roumi	Non Executive member	Al-Roumi has more than 30 years of professional experience in various investment and commercial fields. He held many leading positions and served as a member of the Board of Directors of Al Madar Finance Company. He also held the position of the General Manager of Mayadeen National Company. Al-Roumi has bachelor's degree in Management - International Trade from Chapman College Orange California in the United States of America.	01/05/2017

- **The Board Secretariat is composed of the following:**

Board Member	Position	Educational and Practical Experience	Election/ Appointment Date
Abdullah Mohammad Al–Shatti	Board Secretary	Mr. Al Shatti joined A'ayan Leasing and Investment Company in 2006. He has more than 12 years of professional experience in the field of investment. He started career at the engineering training program of the Kuwait Fund for Arab Economic Development. He then moved to the Private Wealth Management Department at Kuwait Financial Center Company. Then he joined A'ayan Leasing and Investment Company where he went through career development and held many positions till promoted to Assistant CEO for Investment. He is a member of the Board of Directors of several investment and real estate companies inside and outside the State of Kuwait, including the Chairman of the Board of Directors of Mubarad Transport Company (a listed company in Boursa Kuwait Securities market), Annan Company for Real Estate Finance and A'ayan Real Estate Company. Al-Shatti has BA in Computer Engineering from Kuwait University, an MBA from The Hong Kong University of Science and Technology and a Certified Financial Analyst (CFA).	01/05/2017

- **Meetings of the Board of Directors in 2018**

Board Member	Meeting (1) 19 /2/ 2018	Meeting (2) 18/3 /2018	Meeting (3) 22/4 /2018	Meeting (4) 14/5 / 2018	Meeting (5) 15/5 /2018	Meeting (6) 23/5 /2018	Meeting (7) 24/6 / 2018	Meeting (8) 12/8/ 2018	Meeting (9) 28/10/ 2018	Meeting (10) 31/12 /2018	No. Meetings
FahedA. Al-Ghanim Board Chairman	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Abdulaziz N. Al-Marzouq Deputy Chairman	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Mansour H. Al-Mubarak Member of the Board	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Talal M. R.Behbehani Member of the Board	✓	✓	✓	apologized	✓	✓	✓	✓	✓	✓	9
Khaled Bader Al-Roumi Member of the Board	✓	✓	✓	apologized	✓	✓	apologized	✓	✓	✓	8
Riyad N. Al-Bader Member of the Board	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Nasser I. Boresli Member of the Board	✓	✓	✓	✓	✓	✓	apologized	✓	✓	✓	9

- **Recording, coordinating and keeping the minutes of the Board of Directors Meetings**

The Board of Directors has appointed a Secretary of the Board amongst the company's employees. The Board secretariat policies and procedures have been set and approved. These define and ensure that the Board secretary undertakes his duties as per the rules of Corporate Governance as per the Executive Regulations of Law No. 7 of 2010 concerning the Capital Markets Authority and Regulation of Securities as amended. The Board Secretary provides members of the Board with sufficient information on the items to be discussed at least three working days before the meeting to enable the members to take the appropriate decisions. The Board Secretary also records all discussions of the members of the Board during each meeting in written minutes serialized and ordered in a special register. The attending members and their votes on the decisions taken during the meeting are written down.

The Secretary ensures sound delivery and dissemination of the reports, information, documents and agenda relevant to the Board's duties in timely manner. In addition, he provides the members with full and timely access to information, documents and records of the Company in orderly and organized manner. Further, the Company's executive management provides the Board of Directors and its committees with all documents, information and periodic reports of relevance to the Company's various activities.

Rule II

Proper Identification of Duties and Responsibilities

Setting the Policy for Defining the Roles, Responsibilities and Duties of the Members of the Board of Directors:

In accordance with the Company's Articles of Association, which reflect the responsibilities and duties of the Board members under the Companies Law, the Board of Directors approved the Board internal regulations, which define the responsibilities and duties of the Board of Directors towards the Company. The Board has also approved the policies and procedures for the company's executive and supervisory departments so as to define their objectives, clarify the tasks entrusted to them, regulate the reporting lines, processes and information pertaining to the company's various activities to the Board of Directors. This helps the Board members to take the right decisions that are in the best interest of the Company and shareholders.

In enforcement of the approved policies and procedures and for supporting the executive management to efficiently undertake its duties and functions, the Board of Directors has approved the financial and administrative authority matrix that regulate the authorities and powers as well as the delegations granted to the executive management in a manner that supports the process of quick decision making by the authorized personnel while taking into account allocation of powers to achieve the highest control levels when implementing decisions in line with best practices in corporate governance.

A'ayan Board of Directors' Key highlights for the fiscal year ended 31 December 2018:

- Approving the Company's budget for 2018;
- and review the report on departments updates
- Discussing and approving the Company's internal policies such as:
- Reapproving AML/CFT policy after making some amendments;
- Approving record keeping policy and procedures;
- Approving portfolio management policy;
- Reviewing and discussing the periodic reports presented by the Executive management.
- Ensuring that the Company complies with the instructions issued by the regulatory bodies and discussing with the executive management the violations imposed by the supervisory authorities for avoiding recurrence;
- Approving many of the company's job descriptions;
- Approving many investment decisions, especially the sale of assets that secure Company's commitment to its set plan;
- Reviewing the main results of various committees of the Board meetings held periodically;
- Discussing and approving the interim financial statements of the Company and ensuring their integrity;
- Approving the Compliance Department Plan;
- Approving the semi-annual audit report;
- Approving the risk management plan;
- Approving the risk profile/appetite including specific risk ratings.

Formation of the Board Committees

In accordance with the management frameworks set by the corporate governance rules under the provisions of the Executive Regulations of Law No. 7 of 2010 concerning the Incorporation of the Capital Market Authority and the Regulation of Securities as amended, the Board of Directors has approved the formation of several committees of the board in accordance with the regulatory requirements. The committees undertake their functions enabling the Board of Directors to assume its duties at a high level of efficiency and effectiveness. The Board committees have been formed as per below statement:

Committee & Reformation Date	Members of the Committee	No. of Meetings in 2018	Committee achievements in 2018
Audit Committee Formed on 1/5/2017	· Abdulaziz N. Al-Marzouq, Chairman of the Committee · Riyad N. Al-Bader, Member · Talal Behbehani, Member	10 meetings	• Discussing internal audit reports periodically and giving recommendation for resolving issues raised in reports. • Approving the company's annual internal audit plan • Discussing the violations raised by regulatory authorities and give recommendations to the Board for resolution. • Meeting the external auditor periodically and discussing the interim financial statements to better be aware of the Company's financial position. • Discussing and reviewing related policies and recommending them to the Board of Directors for approval.
Risk Management Committee Formed on 1/5/2017	TalalBehbehani, Cjhairman Riyad N. Al-Bader, Member Nasser Boresli Member	4 Meetings	- Discussing a number of related parties' transactions, ensuring the integrity of the measures taken and raising the appropriate recommendations to the Board of Directors for taking the appropriate decision. - Approving the Risk Management Action Plan for 2018. - Reviewing the Risk Management policies Manual and recommending it to the Board of Directors for approval. - Reviewing the half annual Risk Management Report and referring it to the Board for approval. - Discussing the Risk Appetite Statement referring it to the Board for approval. - Periodically review reports on risks associated with the companies various activities.
Nomination &Remuneration Committee Formed on 01/05/2017	Abdulaziz N. Al-Marzouq, Chairman of the Committee Mansour Al-Mubarak, Member Talal Behbehani, Member	2 Meetings	- Electing the Committee's chairman; - Discussing the amendments to the charter of the Nomination and Remuneration Committee and referring the charter to the Board for approval; - Discussing the Remuneration Policy of the Board of Directors; - Approving the job descriptions of the members of the Board of Directors, the independent member and the CEO; - Discussing and approving the detailed annual report of the remunerations paid by the Company for 2018. - Preparing the assessment forms of the Board Committees and the Board of Directors and delivering the forms to the Board Secretary. - Approving the nominations for the positions of mandatory registration at CMA, the senior executives and executives at the technical sectors in the Company.

Accurate and timely access to information and data by Board members

The Company depends on direct and indirect platforms and channels of communication that enable the members of the board of directors to get full and immediate access to all information, documents and records related to the Company's business. The executive management provides the board of directors and Board committees with all required documents and information through automated information systems that generate periodic reports or through direct communication with the concerned departments, as well as reports issued by the Board committees to enable Board members to take appropriate decisions effectively and in timely manner.

Rule III

Selecting qualified candidates for membership of the Board of Directors and Executive Management

Formation of Nominations and Remuneration Committee:

The Board Nomination and Remuneration Committee is composed of three members, one of them is an independent member. The committee is chaired by a non-executive board member. It plays an active role in recommending the acceptance or rejection of nomination or re-nomination of members of the Board of Directors and adopting clear policies and regulations that govern the award of compensation and rewards at various types in line with the provisions stipulated in the Companies law in this regard. The Committee also approves the job descriptions of the Board members whether executive, non-executive or independent Board members. It also approves the annual review of skills requirements for Board membership, as well as attracting applicants for executive positions while stressing the significance of not impairing the independence of the independent Board members.

Remunerations to the Members of the Board of Directors and the Executive Management:

The Objectives of the Remunerations Policy:

A'ayan Board of Directors has approved remunerations policy in line with the Company's strategy for attracting and retaining highly skilled and qualified professionals capable of delivering the tasks assigned to them. The Company has linked Remunerations Policy with its performance in general and the specific performance of the company's departments and associated risks. In accordance with the regulatory requirements, the Company is committed to annually disclose the remuneration granted to the members of the Board of Directors and the Executive Management as per the rules of corporate governance under the Executive Regulations of Law No. 7 of 2010 concerning the Incorporation of the Capital Market Authority and the Regulation of Securities as amended

- Report about Remunerations to the Members of the Board of Directors & Executive Management:

The Company applies the general framework for determining the remuneration of the members of the Board of Directors as stipulated in Article (198) of the Companies Law No. 1 of 2016. The remuneration report is then presented to the General Assembly for approval. Members of the Board of Directors & Executive Management Remunerations are as follows:

1. Remuneration and Benefits to the Board of Directors:

The remuneration of the Board of Directors is presented as a separate item to the Ordinary General Assembly held to approve the Company's business results. The following is a statement of the remunerations in 2018:

o Members of A'ayan Board of Directors have not received any financial remunerations for 2018

o Members of the Board of Directors have not received any remunerations or benefits directly or indirectly for 2018

2. Remuneration and Benefits to the Executive Management:

The Board Nomination and Remuneration Committee approves the recommendation for the executive management's remuneration and benefits. The following statement includes the highest category of the Company executive management, with the analysis of the remunerations granted by type, whether in cash, benefits or privileges approved directly or indirectly by the Company or its subsidiaries

Categories	Number	Direct Remuneration			Total	Indirect Remuneration /5
		Fixed Benefits/ 3		Variable benefits performance Bonus /4		
		Basic Salaries	Fixed allowances			
Senior Executive Management/ 1	5	314148	50700	149659	514507	46000
Executive Management for Financial and Control Positions/2	2	48600	7600	13793	69993	0
Total	7	362748	58300	163452	584500	46000

For further details please refer to the Investors' Relation Unit

1. Senior Executive Management Category: This category includes the positions of the Chief Executive Officer, his deputies and assistants other than the financial and supervisory positions.
2. Executive Management Category for Financial and Supervisory Functions: This category includes the heads of financial (Chief Financial Officer) and Supervisory functions.
3. Fixed Remunerations: Comprise the basic salary represented by the annual total of monthly salary for all categories while Fixed Allowances represent the total annual amount of the fixed monthly benefits given to the employee in accordance with the contract concluded with the employee such as (telephone allowance, transport allowance, travel allowance) according to the approved Human Resources Policy at the Company.
4. Variable Benefits: Includes the annual bonuses associated with achieving objectives in accordance with the annual performance appraisal process approved by the Board of Directors in coordination with the Nominations and Remuneration Committee.
5. Indirect Benefits include the annual bonuses granted by other companies to the representative of A'ayan Company in their Board of Directors according to the annual performance assessment process approved by the boards of these companies through the Board Nomination and Remuneration Committees and approved by the General Assemblies of those companies.

The Company's employees also enjoy other benefits of Medical Insurance for the employee and his / her family according to the job grade in line with the approved Regulations.

Rule IV

Ensuring the integrity of financial reporting

The integrity of the financial statements of the company is a fundamental principle recognized by the company, its board of directors and its executive management. The Integrity of financial statements serves as an indicator of soundness and credibility in the company's presentation of its financial position, thus increasing investor trust in the information provided by the company and allows shareholders to pursue their rights. Within this framework, the Company has applied processes and procedures that enhance the integrity of the financial statements through supervision by the Audit Committee of the Company and its review by an independent external auditor appointed by the shareholders in the General Assembly.

In addition, the Company's Board of Directors and the Executive Management are committed to provide written acknowledgement to the effect that the Company's financial reports are fairly presented and that the reports reflect all financial aspects of the Company including the operating results and that these statements are prepared in accordance with international accounting standards approved by the Capital Market Authority in such a manner that promotes accountability, whether Management accountability before the Board of Directors or the Board of Directors' accountability before the shareholders.

Formation of the Audit Committee

The Audit Committee is composed of three members, one of them is independent. They have academic qualifications and practical experience in accounting and financial fields. Neither the Board chairman nor any of the executive board members are members in the Audit Committee. The Committee performs its functions in accordance with the approved internal chart governing its activities in line with governance rules. The Committee submits its recommendations to the Board of Directors in respect of the Company's quarter and annual financial statements.

The internal audit policies and procedures approved by the Board of Directors stipulate that clarifications should be made for the reasons and justifications whenever the Board of Directors elects not to comply with the Audit Committee recommendations should there be any conflict between the recommendations of the Audit Committee and the Board's decisions. It should be noted that during the financial year ended 31 December 2018, there has been no conflict between the recommendations of the Company's Audit Committee and the decisions taken by the Board of Directors.

External Auditor's Independence & Neutrality

The Company has complied to the requirement of appointing an auditor registered and approved by the Capital Market Authority and independent of the Company and its Board of Directors. Accordingly and based on satisfying of the independence conditions, the Committee issued recommendation to the Board of directors for engaging Ernst & Young- Al-Aiban, Al-Osaimi & Partners – Bader Adel Al Abduljader as an external auditor to provide review and audit services of the Company's financial statements due to the high standard of professionalism and efficiency in this field recognized globally, regionally and locally.

Rule V

Developing sound risk management and internal control systems

Risk Management Committee

The Board Risk Management Committee is composed of three members of the Board of Directors, chaired by a non-executive member. It plays an active role in determining the appropriate measures to assess the risks to which the Company is exposed and to decide on the appropriateness of such measures in accordance with the volume of the Company's business. This exercise is undertaken to face and mitigate the Company's risks particularly market risks and operational risks. The Committee ensures that there are in place effective risk management functions and ensures the independence of these functions. The Committee also assists the Board of Directors in determining the acceptable level of risk in the Company and submits periodic reports to the Board of Directors on the risks to which the Company is exposed. The Committee acts in accordance with its internal charter approved by the Board of Directors and in line with the principles of corporate governance.

Risk Management

The organizational structure of the company incorporates an independent unit for risk management in accordance with CMA instructions. The Risk Management Unit's personnel are skilled professionals having technical abilities that qualify them to undertake their duties. In addition, they are fully independent reporting directly to the Board Risk Management Committee. The Unit is mainly engaged in measuring, monitoring and mitigating all types of risks and fluctuations facing the company while the unit exercises its functions and submits recommendations to the Board of Directors on deals and transactions that the company may have with related parties.

The Risk Management Unit submits periodic reports to the Board of Directors on the analysis of risks to which the Company may be exposed in addition to satisfying CMA requirements in this regard.

Internal Controls

The Company has set an internal control system that provides reasonable assurance of effective and appropriate controls. It includes various controls whether financial and non-financial, processes and compliance with laws and regulations. The Board of Directors regularly reviews these procedures through its main committees. The efficiency of controls is reviewed from time to time within the Company's relevant departments by regular review and internal audit on departments across the Company.

Internal Audit Department

The organizational structure of A'ayan Company encompasses an independent internal audit department, technically reporting to the Board Audit Committee. The Board of Directors appoints the chief internal auditor based on the recommendation of the Board Audit Committee. The responsibilities and duties of the Internal Audit Department are determined and approved by the Board of Directors. The IAD mainly undertakes monitoring function to ensure the effectiveness and efficiency of the Company's internal control systems and the accuracy and integrity of the financial statements of the Company from all financial, accounting and administrative aspects, as well as monitoring the implications of risk factors facing the Company and the available systems to determine the efficiency of the daily operations and to face unexpected market volatilities.

Rule VI

Enhancing Professional and Ethical Code of Conduct

Standards and Parameters of Professional and Ethical Code of Conduct

Promoting the culture of professional conduct and ethical values across the Company is one of the cornerstones of undertaking business activities. Therefore, The Board of Directors pays great attention to ensure commitment of all members of the Board of Directors, executive management or other employees with the internal policies and regulations in force, the legal and regulatory requirements and the decisions issued by the supervisory bodies that regulate the Company's business. This is derived from our view and conviction that this pillar is one of the key fundamentals that positively affect the interests of all parties of the Group, and in particular, to the shareholders without any conflict of interest and at a high level of clarity and transparency.

Conflict of interest Policies and Procedures

The Board of Directors has approved Conflict of interest Policy in accordance with the corporate governance instructions to ensure that the Company provides its services in a fair and sound manner and to prevent exploiting transactions where any of the Company's stakeholders may be involved and to handle transactions between the Company and its stakeholders as well as cases of conflict between the Company's customers and to ensure informing the General Assembly of any transactions and contracts concluded with related parties.

Rule VII

Accurate and Timely Disclosure & Transparency

Disclosure & Transparency

The Company sincerely believes in the vital role of disclosure and transparency principles, which ensure integrity and credibility for traders in the stock market, for the interest of the Company's shareholders, all dealers and for positive effect on the Company reputation at local and regional levels. Therefore, Disclosure and Transparency Policies and Procedures Manual has been approved in accordance with the Corporate Governance Rules. This Manual regulates disclosures of the Company's material information, as well as insider transactions and declaration of interests to ensure full transparency, integrity and justice. The Company has a proven record of disclosures to Boursa Kuwait and the Capital Markets Authority plus Disclosures Register on the Company's website to enhance the Company's accountability and transparency.

Board of Directors and Executive Management Disclosures

The Company keeps a register for the disclosures of the members of the Board of Directors and the Executive Management and their first-degree relatives in respect of their trading on the Company's shares listed on the Stock Exchange in accordance with CMA instructions concerning the regulation of insiders' transactions to ensure integrity and transparency of the Company's Board of Directors and Executive Management.

Investor Relations Unit

In accordance with the Company's commitment to have full communication channels with all shareholders, Investors Relations Unit has been established to maintain close contact with all shareholders of the Company giving them access to information, in timely manner, as well as proving necessary information and reports to potential investors. In so doing, the Investor Relations Unit applies approved disclosure methods.

IT Infrastructure Upgrade For the Disclosure Process

The Company has applied an electronic system to ensure accuracy and speed for performing tasks related to the Company's various business. Thus, the Company has been unprecedented in the online registration of its employees at the electronic systems of CMA, CBK and Boursa Kuwait, the official Operator of Kuwait Stock Market, to undertake the disclosure process online by its employees having e-signature at the Public Authority for Civil Information in line with the process adopted by regulatory authorities supervising the Company's activities for regulating the disclosures of listed companies along with a special section for corporate governance and a register of all disclosures on the Company's website accessible to all shareholders.

Rule IIX

Respecting Shareholders' Rights

Shareholders' Rights

The Company's Board of Directors and Executive Management represent the interests of all shareholders, respect their rights and ensure fair and equal treatment for all of them. They safeguard all the shareholders rights, provide them with support and enhance their confidence in the Company. The Company supports all effective means of communication with shareholders and encourages them to exercise their rights through active participation in the meetings of the Company's General Assembly and ensuring replies to shareholders inquiries to help them form an overall view about items subject to voting at the Shareholders General Meeting Assembly.

Shareholding Records

The Company's shareholders Register is kept at the Clearing agency, with the names of shareholders, their nationalities and the number of shares owned by each of them for ensuring continuous follow-up of shareholders' information. For this purpose, the Company has in place an approved Shareholders' Rights Protection Policy.

Encouraging shareholders to participate at the General Assembly meetings

For promoting the principles of transparency, control and accountability, the Company opens direct contact lines with all its shareholders being the first stakeholders and the highest supervisory and managing body of the company to ensure that all information and reports on the Company's activities are provided in timely manner to help them form an overall view. The Company also encourages shareholders to exercise their rights stipulated in the Company's Articles of Association, the laws and regulations governing this matter. The Investor Relations Unit is assigned and empowered to undertake this role in accordance with the policy approved By the Board of Directors.

Rule IX

Recognizing stakeholders Role

Maintaining Stakeholders Rights and Encouraging them to Participate in the Follow-up of the Company's Various Activities

The Company is committed to implementing clear and transparent procedures in dealing with stakeholders in accordance with the stakeholders' policy approved by the Board of Directors. This policy ensures that stakeholders are encouraged to participate and follow up the company's activities, develop channels of openness and transparency mainly through the Company website, supervise the affairs of the Company efficiently, impartially and effectively, deal with stakeholders directly and clearly on basis of honesty and respect, while encouraging the stakeholders of the Company at different categories to participate effectively in the company's activities. This enhances customers' confidence in the Company and various investment products and services it renders.

Rule X.

Performance Enhancement & Improvement

Training Programs for Members of the Board of Directors and Executive Management

Policies and procedures related to the training of board members and executive management aim at developing skills and deepening knowledge to ensure that they are kept abreast of the latest developments in the fields of investment, finance, economics, management, corporate governance and risk management, in particular, the aspects of combating money laundering and terrorism financing to keep pace with the latest measures and global developments in this field.

Performance Appraisal

The performance of the members of the Board of Directors and the Executive Management is measured in line with the Key Performance Indicators Manual for the Members of Board of Directors, the Board Committees and the Executive Management. This Manual has been approved by the Board of Directors in accordance with the Corporate Governance Rules. It adopts financial and non-financial parameters to measure the Company's performance development and progress towards achieving its objectives. Further, it assesses the performance and efficiency of the Board of directors and Executive Management.

Corporate Value Creation

The Company works on deepening the culture of compliance with laws and regulations for creating and enhancing corporate values and development plans, achieving the Company's strategic objectives and improving performance standards by adding value to the Company's brand and increasing the confidence of shareholders and stakeholders in the Company. The Company dedicates its efforts for achieving the objectives and encouraging self-monitoring, increasing staff self-confidence, communicating to them work values and enabling them to raise other people's awareness of these values, demonstrating high professional conduct and improving performance. As such, staff are motivated to act professionally and comply with the rules and laws regulating the Company's business as well as the resolutions of relevant regulatory authorities.

Rule XI

Focusing on Corporate Social Responsibility

Corporate Social Responsibility

The Company and its subsidiaries undertake their roles for contributions towards development of the Kuwaiti society in all fields. In this regard, the Board of Directors has in place an approved Corporate Social Responsibility Policies and Procedures Manual. The provisions of this Manual stipulate and accounts for maintaining balance between the Company's objectives and the public goals of the society. The Manual highlights Company's role in social work in Kuwait for supporting the progress of society in various fields. This role is undertaken in consistency with the rules of corporate governance set forth in the Executive Regulations of CMA law.

To this end, the Company has diversified its social work efforts throughout 2018 to ensure covering several areas for enhancing corporate social responsibility as follows:

- In the context of the Company's objective to develop friendly and spiritual relations among employees of the Company, its subsidiaries and affiliate staff, the Company arranged Umrah to Macca and Medina, the two holy cities. All employees and their families were eligible for the Umrah trip where more than 100 employees participated; thus, achieving the Company's objective of enhancing its role for the internal social responsibility towards its employees.

- A'ayan Leasing and Investment Company has strong belief in the social responsibility towards childhood and contribution to child support, with special focus on the orphans. Therefore, the Company arranged a visit to the Family Nursery Department and Children's House at the Ministry of Social Affairs and Labor. A number of employees gave symbolic presents to children at all age groups.

- A'ayan Leasing and Investment Company and its subsidiaries, with full faith in the significance of private sector's role, support the development of partnership efforts to achieve goodness, development and social security mission. Accordingly, the Company gave a financial donation of KD 2000 as a modest contribution to the campaign of the Kuwaiti Zakat House for setting free Kuwaiti prisoners imprisoned for financial claims in 2018. This reflects community responsibility towards the distressed and our endeavors to maintain and preserve the social ties of Kuwaiti society.

- The Company and its subsidiaries participated in covering the needs of the Central Blood Bank of Kuwait. The Company in cooperation and coordination with the Central Blood Bank held a campaign for blood donation, while providing awareness about the benefits of blood donation to enhance health culture amidst its employees and highlighting the humane side of the matter in contributing towards saving the lives of others.

شركة أعيان للإجارة والاستثمار ش.م.ك.ع.
A'AYAN LEASING & INVESTMENT CO. K.S.C.P

Board of Directors' Declaration on the Integrity of the Financial Reports

I, Fahed Ali Mohammed Thunayan Al-Ghanim, in my capacity the Company's Chairman of the Board of Directors, declare that I have reviewed the financial statements of A'ayan Leasing and Investment Company for the fiscal year ended 31 December 2018.

Based on the information I have, this report does not contain any misstatement of material information, and that no fundamental or significant information has been omitted with a view to ensure that presented information are not misleading under the circumstances in which such statements were made for the reporting period.

Based on the information I have, the financial statements and other financial information provided in this report present fairly, in all material respects, the financial position, results of operations and cash flows recorded as at and for the reporting period.

I and the Executive Management undertake the responsibility for preparing and updating the disclosure procedures as well as internal control systems for preparing the Company's financial reports. We have undertaken the following:

A. Designing the procedures for disclosure and transparency in accordance with Law No. 7/2010 and its executive regulations as amended – Rule Book 10 "Disclosure and Transparency".

B. Designing internal control systems to ensure that we have access to them and provide us with material information of the Company and its subsidiaries which is provided to us by others in those entities, particularly during the period for which this report is prepared.

C. Designing internal controls for the financial reporting process and that the design of the internal controls for the preparation of the financial statements is under our supervision to provide reasonable assurance on the reliability of the financial reports and preparation of financial statements for external purposes in accordance with the International Financial Reporting Standards.

D. Evaluating the effectiveness of the internal control systems.

This report incorporates our conclusion on the effectiveness of the disclosure controls and procedures as on 31 December 2017, covered in this report based on that evaluation.

We have disclosed in this report any changes to the Company's internal control systems and to the financial reporting process during the last quarter - fourth quarter of the year in the case of the annual report - which may materially affect the Company's internal control systems and the preparation of financial reports.

Based on the latest evaluation of the internal controls on the financial reporting, I and Executive Management have disclosed to the Company's Auditors and the Board Audit Committee about all significant deficiencies and weaknesses in the design or implementation of internal controls on the financial reporting process which may adversely impact the Company's ability to record, process, summarize and prepare the financial information.

We have also disclosed any fraud or forgery, whether material or immaterial, involving a member of the Executive Management or other employees who have significant roles in the Company's internal control systems and the preparation of financial statements.

Fahed Ali Mohammed Thunayan Alghanim
Chairman of Board of Directors

A'AYAN LEASING & INVESTMENT CO. K.S.C.P
AND ITS SUBSIDIARIES

Consolidated Financial Statements for the year ending 2018

Building a better working world

Erbst & Young
Al Aiban, Al Osaimi & Partners
P.O.Box 74
18-20th Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2 295 5000
Fax: +965 2 245 6419
kuwait@kw.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF A'AYAN LEASING AND INVESTMENT COMPANY K.S.C.P.

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of A'ayan Leasing and Investment Company K.S.C.P. (the "parent company") and its subsidiaries (collectively "the group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Building a better working world

Erbst & Young
Al Aiban, Al Osaimi & Partners
P.O.Box 74
18-20th Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2 295 5000
Fax: +965 2 245 6419
kuwait@kw.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF A'AYAN LEASING AND INVESTMENT COMPANY K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)
We have identified the following key audit matters:

a) Impairment of trading properties
The trading properties represent a significant part of the total assets of the group with a carrying value of KD 14,382,872 (2017: KD 15,714,810) at the reporting date.

The net realizable value of trading properties have been determined by external real estate appraisers. The determination of the net realizable value of trading properties is dependent on key inputs, such as rental value, maintenance status, market knowledge and historical transactions, which, although not directly observable, but are corroborated by observable market data. The disclosures relating to the inputs are relevant, given the estimation uncertainty involved in these valuations. Given the size and complexity of the determination of net realizable value of trading properties, and the importance of the disclosures relating to the inputs used in the valuation, we have considered this as a key audit matter.

We have tested the inputs and assumptions made by management of the group and the appropriateness of the properties' related data supporting the external appraisers' valuations. We performed procedures for areas of risk and estimation. This included, where relevant, comparison of judgments made to current market practices and testing the valuations on a sample basis. Further, we have considered the objectivity, independence and expertise of the external real estate appraisers. We also assessed the appropriateness of the disclosures relating to the trading properties of the group in Note 14 to the consolidated financial statements.

b) Impairment of investment in associates
The group has investment in associates with a carrying value of KD 44,008,269 (2017: KD 48,527,998) as at 31 December 2018. Investment in associates are accounted for under the equity method of accounting for associates, whereby these investments are initially stated at cost, and are adjusted thereafter for the post-acquisition change in the group's share of the net assets of the associates less any impairment provisions.

Impairment of investment in associates is significant to our audit as the management uses judgments and estimates to assess these investments for impairment. Accordingly, we have considered this as a key audit matter.

As part of our audit procedures, we assessed whether the management has identified any indications of impairment in its investees, including significant adverse changes in economy, market, legal environment, industry or the political environment affecting the investees business also considering any changes in the investee's financial condition. We further assessed management's assumptions, including the comparison of relevant factors to industry benchmarks and economic forecasts to establish whether there are any indicators of impairment.

Erbst & Young
Al Aiban, Al Osaimi & Partners
P.O.Box 74
18-20th Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2 295 5000
Fax: +965 2 245 6419
kuwait@kw.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF A'AYAN LEASING AND INVESTMENT COMPANY K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

b) Impairment of investment in associates(continued)

Additionally, we have also assessed the adequacy of the disclosures relating to group's investment in associates in Note 15 to the consolidated financial statements.

c) Fair valuation of investment properties

The investment properties represent a significant part of the total assets of the group with a carrying value of KD 140,655,853(2017: KD 128,905,000) at the reporting date.

The fair value of group's investment properties have been determined by external real estate appraisers. The determination of fair value of the investment properties is dependent on key inputs, such as rental value, maintenance status, market knowledge and historical transactions, which, although not directly observable, but are corroborated by observable market data. The disclosures relating to the inputs are relevant, given the estimation uncertainty involved in these valuations. Given the size and complexity of the valuation of investment properties, and the importance of the disclosures relating to the inputs used in such valuations, we have considered this as a key audit matter.

We have tested the inputs and assumptions made by management of the group and the appropriateness of the properties' related data supporting the external appraisers' valuations. We performed procedures for areas of risk and estimation. This included, where relevant, comparison of judgments made to current market practices and challenging the valuations on a sample basis. Further, we have considered the objectivity, independence and expertise of the external real estate appraisers. We also assessed the appropriateness of the disclosures relating to the investment properties of the group in Note 16 to the consolidated financial statements.

Other information included in the group's Annual Report 2018

Management is responsible for the other information. Other information consists of the information included in the group's 2018 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the parent company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Building a better working world

Erbst & Young
Al Aiban, Al Osaimi & Partners
P.O.Box 74
18-20th Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2 295 5000
Fax: +965 2 245 6419
kuwait@kw.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF A'AYAN LEASING AND INVESTMENT COMPANY K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks,and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

Building a better
working world

Erbst & Young
Al Aiban, Al Osaimi & Partners
P.O.Box 74
18-20th Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2 295 5000
Fax: +965 2 245 6419
kuwait@kw.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF A'AYAN LEASING AND INVESTMENT COMPANY K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the parent company and the consolidated financial statements, together with the contents of the report of the parent company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, as amended and its executive regulations, as amended, and by the parent company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, nor of the parent company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018 that might have had a material effect on the business of the parent company or on its financial position.

Building a better working world

Erbst & Young
Al Aiban, Al Osaimi & Partners
P.O.Box 74
18-20th Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2 295 5000
Fax: +965 2 245 6419
kuwait@kw.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF A'AYAN LEASING AND INVESTMENT COMPANY K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Report on Other Legal and Regulatory Requirements (continued)

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, or of the provisions of Law No. 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2018 that might have had a material effect on the business of the parent company or on its financial position.

BADER A. AL-ABDULJADER
LICENCE NO. 207 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

17 February 2019
Kuwait

	Notes	2018 KD	2017 KD
INCOME			
Net Islamic finance income		**112,025**	528,410
Net income from leasing operations	5	**9,803,803**	9,667,860
Real estate and construction income	6	**16,731,625**	3,722,799
Income from investments and saving deposits	7	**373,552**	605,465
Gain on disposal of a subsidiary	4	**-**	6,811,495
Share of results of associates	15	**65,335**	(6,300,024)
Advisory and management fees		**760,687**	707,291
Other income	8	**2,373,060**	771,746
		30,220,087	16,515,042
EXPENSES			
Finance costs		**(7,232,163)**	(7,355,227)
Net impairment losses, expected credit losses and provisions	9	**(6,232,646)**	(1,768,133)
Staff costs		**(6,064,573)**	(6,136,180)
Depreciation	18	**(324,251)**	(487,290)
Net foreign exchange differences		**(136,857)**	545,826
Other expenses	10	**(3,210,259)**	(3,570,879)
		(23,200,749)	(18,771,883)
PROFIT (LOSS) BEFORE TAX AND DIRECTORS' REMUNERATION		**7,019,338**	(2,256,841)
Directors' remuneration	27	**-**	-
National Labour Support Tax ("NLST")		**(1,426)**	-
Zakat		**-**	-
Contribution to Kuwait Foundation for Advancement of Sciences ("KFAS")		**-**	-
Taxation from subsidiaries		**(525,081)**	(170,347)
PROFIT (LOSS) FOR THE YEAR		**6,492,831**	(2,427,188)
Attributable to:			
Equityholders of the parent company		**3,029,336**	(850,114)
Non-controlling interests		**3,463,495**	(1,577,074)
		6,492,831	(2,427,188)
Basic and diluted earnings (loss) per share - attributable to equity holders of the parent company	11	**3.78 fils**	(1.06) fils

	Notes	2018 KD	2017 KD
Profit (loss) for the year		**6,492,831**	(2,427,188)
Other comprehensive loss:			
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:			
Available-for-sale financial assets (IAS 39):			
- Change in fair value of available-for-sale investments		-	(285,347)
- Transfer to profit or loss on impairment of available-for-sale investments		-	315,051
- Loss recycled to profit or loss on sale of available-for-sale investments		-	(106,694)
Net loss on available-for-sale financial assets		-	(76,990)
Share of other comprehensive (loss) income of associates		**(177,939)**	26,610
Exchange differences on translation of foreign operations		**(12,552)**	(30,012)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(190,491)**	(80,392)
Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:			
Net loss on equity instruments at fair value through other comprehensive income		**(12,904)**	-
Revaluation of property and equipment	18	**(16,000)**	78,000
Net other comprehensive (loss) income that will not be reclassified to profit or loss in subequent periods		**(28,904)**	78,000
Other comprehensive loss for the year		**(219,395)**	(2,392)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**6,273,436**	(2,429,580)
Attributable to:			
Equity holders of the parent company		**2,851,666**	(935,992)
Non-controlling interests		**3,421,770**	(1,493,588)
		6,273,436	(2,429,580)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at 31 December 2018

	Notes	2018 KD	2017 KD
ASSETS			
Cash and cash equivalents	12	**26,302,587**	28,690,121
Islamic finance receivables	13	**95,096**	1,130,253
Trading properties	14	**14,382,872**	15,714,810
Available-for-sale investments		**-**	2,608,887
Financial assets at fair value through profit or loss		**2,429,959**	-
Financial assets at fair value through other comprehensive income		**396,826**	-
Investment in associates	15	**44,008,269**	48,527,998
Investment properties	16	**140,655,853**	128,905,000
Other assets	17	**13,094,534**	19,231,686
Property and equipment	18	**59,209,142**	60,218,624
Leasehold property	19	**5,443,802**	6,775,563
Goodwill	20	**1,036,879**	1,036,879
TOTAL ASSETS		**307,055,819**	312,839,821
EQUITY AND LIABILITIES			
Equity			
Share capital	21	**81,403,882**	81,403,882
General reserve	22	**8,661,656**	8,661,656
Treasury shares reserve		**2,678,070**	2,678,070
Asset revaluation surplus	23	**7,327,469**	7,326,858
Foreign currency translation reserve		**(404,093)**	(300,370)
Fair value reserve		**(129,114)**	44,261
Accumulated losses		**(6,359,048)**	(10,305,466)
Treasury shares	24	**(11,339,726)**	(11,339,726)
Equity attributable to equity holders of the parent company		**81,839,096**	78,169,165
Non-controlling interests	4	**38,946,368**	39,268,102
Total equity		**120,785,464**	117,437,267
Liabilities			
Islamic finance payables	25	**153,649,729**	161,578,747
Other liabilities	26	**32,620,626**	33,823,807
Total liabilities		**186,270,355**	195,402,554
TOTAL EQUITY AND LIABILITIES		**307,055,819**	312,839,821

Fahad Ali Mohammed Thunayan Al-Ghanim
Chairman

Mansour Hamad Al-Mubarak
Chief Executive Officer

	Notes	2018 KD	2017 KD
OPERATING ACTIVITIES			
Profit (loss) for the year before tax and directors' remuneration		**7,019,338**	(2,256,841)
Non-cash adjustments to reconcile profit for the year to net cash flows:			
Depreciation	18	**10,078,944**	9,398,255
Amortisation of leasehold property	19	**1,331,761**	1,215,004
Net impairment losses, expected credit losses and provisions	9	**6,232,646**	1,768,133
Gain on disposal of investment properties	6	**(215,226)**	(1,561)
Unrealised (gain) loss on revaluation investment properties	16	**(10,157,642)**	2,735,526
Gain on disposal of property and equipment	5	**(984,323)**	(661,897)
Income from investments and saving deposits	7	**(373,552)**	(605,465)
Gain on disposal of a subsidiary	4	**-**	(6,811,495)
Share of results of associates	15	**(65,335)**	6,300,024
Net foreign exchange differences		**136,857**	(545,826)
Provision for employees end of service benefits		**549,720**	728,116
Finance costs		**7,232,163**	7,355,227
		20,785,351	18,617,200
Changes in operating assets and liabilities:			
Islamic finance receivables		**1,168,669**	6,649,365
Trading properties		**1,331,938**	4,941,835
Other assets		**2,185,792**	639,907
Other liabilities		**(1,981,140)**	(1,366,306)
Cash flows from operations		**23,490,610**	29,482,001
Employees end of service benefits paid		**(546,398)**	(305,089)
Net cash flows from operating activities		**22,944,212**	29,176,912
INVESTING ACTIVITIES			
Net proceeds on sale of a subsidiary		**-**	12,790,654
Proceeds from sale of financial assets at fair value through profit and loss		**124,927**	-
Purchases of available-for-sale investments		**-**	(216,214)
Proceeds from sale of available-for-sale investments		**-**	1,408,350
Purchase of investment in associates		**-**	(57,200)
Proceeds from sale of investment in associates		**-**	227,100
Purchase of investment properties	16	**(4,451,884)**	(4,578,463)
Proceeds from disposal of investment properties	16	**4,463,611**	819,525
Income received from investment and savings deposits	7	**279,925**	254,057
Dividend income received		**2,617,988**	2,472,122
Purchase of property and equipment	18	**(20,518,224)**	(23,538,456)
Proceeds from disposal of property and equipment		**11,294,547**	12,608,181
Movement in restricted bank balance		**154**	1,374
Net cash flows (used in) from investing activities		**(6,188,956)**	2,191,030
FINANCING ACTIVITIES			
Finance costs paid		**(5,042,369)**	(8,433,125)
Net repayment of Islamic finance payables		**(10,315,038)**	(17,304,899)
Dividends paid to non-controlling interests		**(489,476)**	(1,717,329)
Net movement in non-controlling interests		**(3,295,753)**	(2,734,459)
Net cash flows used in financing activities		**(19,142,636)**	(30,189,812)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(2,387,380)**	1,178,130
Cash and cash equivalents at 1 January		**28,669,589**	27,491,459
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	12	**26,282,209**	28,669,589

	Attributable to equity holders of the parent company										
	Share capital	General reserve	Treasury shares reserve	Asset revaluation surplus	Foreign currency translation reserve	Fair value reserve	Accumulated losses	Treasury Shares	Subtotal	Non-controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
As at 1 January 2018	81,403,882	8,661,656	2,678,070	7,326,858	(300,370)	44,261	(10,305,466)	(11,339,726)	78,169,165	39,268,102	117,437,267
Impact of adopting IFRS 9 at 1 January 2018 (Refer to note 3.2)	-	-	-	-	-	(98,817)	83,961	-	(14,856)	58,759	43,903
Balance as at 1 January 2018 (Restated)	81,403,882	8,661,656	2,678,070	7,326,858	(300,370)	(54,556)	(10,221,505)	(11,339,726)	78,154,309	39,326,861	117,481,170
Profit for the year	-	-	-	-	-	-	3,029,336	-	3,029,336	3,463,495	6,492,831
Other comprehensive income (loss) for the year	-	-	-	611	(103,723)	(74,558)	-	-	(177,670)	(41,725)	(219,395)
Total comprehensive income (loss) for the year	-	-	-	611	(103,723)	(74,558)	3,029,336	-	2,851,666	3,421,770	6,273,436
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(489,476)	(489,476)
Change in ownership interest in subsidiaries	-	-	-	-	-	-	833,121	-	833,121	(1,815,251)	(982,130)
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	(1,497,536)	(1,497,536)
As at 31 December 2018	**81,403,882**	**8,661,656**	**2,678,070**	**7,327,469**	**(404,093)**	**(129,114)**	**(6,359,048)**	**(11,339,726)**	**81,839,096**	**38,946,368**	**120,785,464**
As at 1 January 2017	81,403,882	8,661,656	2,678,070	7,402,424	(202,878)	110,647	(9,608,918)	(11,339,726)	79,105,157	45,296,964	124,402,121
Loss for the year	-	-	-	-	-	-	(850,114)	-	(850,114)	(1,577,074)	(2,427,188)
Other comprehensive loss for the year	-	-	-	78,000	(97,492)	(66,386)	-	-	(85,878)	83,486	(2,392)
Total comprehensive income (loss) for the year	-	-	-	78,000	(97,492)	(66,386)	(850,114)	-	(935,992)	(1,493,588)	(2,429,580)
Incorporation of a subsidiary	-	-	-	-	-	-	-	-	-	969,256	969,256
Disposal of a subsidiary	-	-	-	(153,566)	-	-	153,566	-	-	(3,787,201)	(3,787,201)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(1,717,329)	(1,717,329)
As at 31 December 2017	81,403,882	8,661,656	2,678,070	7,326,858	(300,370)	44,261	(10,305,466)	(11,339,726)	78,169,165	39,268,102	117,437,267

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

1 COPORATE INFORMATION

The consolidated financial statements of A'ayan Leasing and Investment Company K.S.C.P. (the "parent company") and its Subsidiaries (collectively, the "group") for the year ended 31 December 2018 was authorised for issue in accordance with a resolution of the Board of Directors on 17 February 2019. The general assembly of the shareholders have the power to amend these consolidated financial statements at the annual general assembly meeting (AGM) after issuance.

The parent company is a Kuwaiti shareholding company and was incorporated on 4 January 1999 in accordance with the provisions of Law No. (12) of 1998, licensing the incorporation of leasing companies. The parent company is regulated by Capital Markets Authority ("CMA") and Central Bank of Kuwait ("CBK"). Details of material subsidiaries are set out in Note 4.

2 PRINCIPAL ACTIVITIES

The group principally operates in Kuwait and engages in financial investments, trading properties, investment properties and leasing activities as follows:

1. Provide lease financing product in all its forms and manifestations.
2. Acts as financial intermediatory and broker.
3. Engage in activities related to granting of credit facilities to consumers.
4. Participate in establishment of companies of different types and purposes inside and outside the State of Kuwait and dealing in the shares of these companies on its behalf and on behalf of third parties.
5. Represent the foreign companies that are similar in purpose with the purposes of the parent company in order to market their products and services including financial benefit of the parties and in accordance with the provisions of the relevant Kuwaiti legislation.
6. Engage in activities relating to investment securities.
7. Portfolio management on behalf of the customers.
8. Investment in real estate property in industrial, agricultural and other sectors.
9. Development of residential land and commercial property for generating rental income.
10. Conducting research and studies and related activities on behalf of customers.
11. Establish investment funds and management of the funds.

All activities of the group are carried out in compliance with Islamic Sharie'a, as approved by the parent company's Fatwa and Sharie'a Supervisory Board. The parent company's registered head office is Al Qibla, Block 10 Bldg. 2+1 A +3A, Ali Mulla Ahmed Abdulla Al Mulla Complex, Floor 4, Office No. 11, Kuwait.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

3.1 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 are prepared on a historical cost basis, except for equity instruments at FVTPL and FVOCI, investment properties and leasehold lands classified under property and equipment that have been measured at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars (KD), which is also the functional currency of the parent company.

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications were made in order to more appropriately present the items of consolidated statement of profit or loss. Such reclassifications do not affect previously reported total assets, total equity, total liabilities and profit reported in the prior year.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations
The group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018.

The nature and the impact of each new standard and amendment is described below:

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the group. The group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 - Financial Instruments
The group adopted IFRS 9 Financial Instruments on its effective date of 1 January 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is not applicable to items that have already been derecognised at 1 January 2018, i.e. the date of initial application.

a) Classification and measurement

Except for certain trade receivables, under IFRS 9, the group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

With respect to receivables, the group analysed the contractual cash flow characteristics of those instruments and concluded that based on their business model which is to hold the financial asset to collect the contractual cash flows which meets the solely payments of principal and yield ("SPPY") criterion, these instruments shall be classified as at amortised cost under IFRS 9. Therefore, reclassification for these instruments is not required on initial adoption of IFRS 9.

Financial assets at fair value through profit or loss comprise certain equity instruments which the group had not irrevocably elected, at initial recognition or transition, to classify at fair value through other comprehensive income. Under IAS 39, the group's equity securities were classified as AFS financial assets. As a result of the change in classification of the group's equity investments, the fair value reserve related to those investments that were previously presented under accumulated OCI, was reclassified to accumulated losses at the date of initial application.

The assessment of the group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018.

The accounting for the group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

(b) Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss (ECL) model. The new impairment model applies to credit facilities, amounts due from related parties, trade and other receivables and bank balances. The group is also required to calculate provision for credit losses on credit facilities in accordance with instructions issued by the CBK in respect of the classification of credit facilities and calculation of provisions. Impairment of credit facilities shall be recognised at the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions. With respect to trade and other receivables carried at amortised cost with no financing component and which have maturities of less than 12 months, the group has adopted an approach similar to the simplified approach to ECLs. The group's accounting policies for impairment of financial assets is explained in Note 3.4.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 9 - Financial Instruments (continued)

(c) Hedge accounting

The group has not applied hedge accounting under IAS 39 nor will it apply hedge accounting under IFRS 9, since it is not applicable.

IFRS 15 - Revenue from Contracts with Customers

The group adopted IFRS 15 Revenue from Contracts with Customers on its effective date of 1 January 2018. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. In addition, guidance on interest and dividend income have been moved from IAS 18 to IFRS 9 without significant changes to the requirements.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

IFRS 15 did not have a significant impact on the group's accounting policies as revenue streams mainly comprise of operating lease income and real estate income.

Amendments to IAS 40 - Transfers of Investment Property

The amendment is applied prospectively, however, retrospective application in accordance with IAS 8 is permitted if possible without the use of hindsight. The amendment clarifies when an entity should transfer property, including property under construction or development into, or out of, investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. This is effective for accounting periods beginning on or after 1 January 2018. There has been no change in use of any of the group's investment property.

Transitional provisions

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in accumulated losses and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made based on the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 9 - Financial Instruments (continued)

Transitional provisions (continued)
The total impact on the group's accumulated losses and fair reserve as at 1 January 2018 is as follows:

	Accumulated losses KD'000	Fair value reserve KD'000
Closing balance under IAS 39 (31 December 2017)	(10,306)	44
Impact on reclassification and re-measurements:		
Financial assets reclassified from AFS to FVTPL	34	(34)
Fair value measurement of equity investments previously measured at cost less impairment reclassified to FVTPL	65	-
Impact of adoption of IFRS 9 in the books of associates	(15)	(65)
Opening balance under IFRS 9 on date of initial application of 1 January 2018	**(10,222)**	**(55)**

Classification of financial instruments on the date of initial application of IFRS 9
The classification and measurement requirements of IFRS 9 have been adopted retrospectively as of the date of initial application on 1 January 2018, however, the group has chosen to take advantage of the option not to restate comparatives. Therefore, the 2017 figures are presented and measured under IAS 39. The following table shows reconciliation of original measurement categories and carrying amount in accordance with IAS 39 and the new measurement categories under IFRS 9 for the group's financial instruments as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Transition adjustment	New carrying amount under IFRS 9
Financial assets:			KD	KD	KD
Cash and cash equivalents	Loans and receivables	Amortised cost	28,690,121	-	**28,690,121**
Islamic finance receivables	Loans and receivables	Amortised cost	1,130,253	-	**1,130,253**
Investment securities - Equity	AFS	FVTPL	2,215,769	133,755	**2,349,524**
Investment securities – Equity	AFS	FVOCI	393,118	-	**393,118**

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 9 - Financial Instruments (continued)

Transitional provisions (continued)

Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9
The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount as at 31 December 2017	Reclassification	IFRS 9 carrying amount as at 1
	KD	KD	KD
Available-for sale-investments			
Opening balance	2,608,887	(2,608,887)	-
To FVOCI – equity securities	-	393,118	393,118
To FVTPL	-	2,215,769	2,215,769
Closing balance	2,608,887	-	2,608,887
FVOCI – equity securities			
Opening balance	-	-	-
From AFS	-	393,118	393,118
Closing balance	-	393,118	393,118
FVTPL			
Opening balance	-	-	-
From AFS	-	2,215,769	2,215,769
Fair value measurement of equity investments previously carried at cost less impairment	-	133,755	133,755
Closing balance	-	2,349,524	2,349,524

There have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the group's consolidated financial statements are disclosed below. The group intends to adopt these standards, if applicable, when they become effective.

IFRS 16 - Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The group is in the process of evaluating the impact of adoption of IFRS 16 on the group's consolidated financial statements however, the potential impact is not expected to be material as the group is acting as Lessor in majority of its leasing arrangements.

Amendments to IAS 28: Long-term interests in associates and joint ventures
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

Other new or amended standards which are issued but not yet effective, are not relevant to the group and have no impact on the accounting policies, consolidated financial position or performance of the group.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Basis of consolidation
The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at the reporting date. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if and only if the group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The group's voting rights and potential voting rights.

Where practicable, appropriate adjustments for non-uniform accounting policies are made to their financial statements when included in the consolidated financial statements to bring them in line with the group's accounting policies.

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the group gains control until the date the group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent 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 in line with the group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full upon consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in consolidated statement of profit or loss. Any investment retained is recognised at fair value.

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the group acquires a business, it assesses the financial assets acquired and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or a liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in the consolidated statement of profit or loss.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation of and the portion of the cash-generating unit retained.

Investment in associates
An associate is an entity over which the group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The group's investment in its associates is accounted for under the equity method of accounting. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment seperately.

The consolidated statement of profit or loss reflects the group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the group. When necessary, adjustments are made to bring the accounting policies in line with those of the group.

After application of the equity method, the group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within 'Share of profit of an associate' in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate, the group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in consolidated statement of profit or loss.

Revenue recognition
Revenue is recognized by the group when there has been a transfer of control of the goods or assets to the customers or when services have been rendered. The following specific recognition criteria must also be met before revenue is recognized:

Rental income
The group is the lessor in operating leases. Rental income arising from operating leases on motor vehicles operating fleet and investment properties is accounted for on a straight-line basis over the lease terms.

Fee income
Fees earned for the provision of services over a period of time are accrued over that period. These fees include advisory and management fees. Fee income is recognised when specific services are rendered.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from of real estate sales

Income from the sale of real estates is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the asset.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the goods are transferred to the customer, generally on delivery of the goods.

Islamic finance income

Income from Musawama, Ijara, Tawarruq and Real Estate is recognized on a time proportion basis so as to yield a constant periodic rate of return based on the balance outstanding.

Dividend income

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

Finance costs

Finance costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. All other finance costs are expensed in the period in which they occur. Finance costs consist of profit and other costs that an entity incurs in connection with obtaining the funds.

Taxation

National Labour Support Tax (NLST)

NLST is calculated at 2.5% of the profit for the year attributable to the parent company in accordance with Law No. 19 of 2000 and the Ministry of Finance resolutions No. 24 of 2006.

Taxation on overseas subsidiaries

Taxation on overseas subsidiaries is provided in accordance with fiscal regulations applicable to each country of operation.

Events after the reporting period

If the group receives information after the reporting period, but prior to the date of authorisation for issue, about conditions that existed at the end of the reporting period, the group will assess if the information affects the amounts that it recognises in the group's consolidated financial statements. The group will adjust the amounts recognised in its consolidated financial statements to reflect any adjusting events after the reporting period and update the disclosures that relate to those conditions in the light of the new information. For non-adjusting events after the reporting period, the group will not change the amounts recognised in its consolidated financial statements but will disclose the nature of the non-adjusting event and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.

Financial instruments

In the current period the group has adopted IFRS 9 Financial Instruments. See section 3.2 for an explanation of the impact. Comparative figures for the year ended 31 December 2017 have not been restated. Therefore, financial instruments in the comparative period are still accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

a) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)
b) Classification and subsequent measurement
Financial assets - Policy effective from 1 January 2018 (IFRS 9)
On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- 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 yield on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost, at FVOCI as at FVTPL if doing so eliminates, or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment: Policy applicable from 1 January 2018
The group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual profit income, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the group's management;
- 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;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity. Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and yield: Policy applicable from 1 January 2018
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

b) Classification and subsequent measurement (continued)

In assessing whether the contractual cash flows are solely payments of principal and yield, the group considers the contractual terms of the instrument. This includes assessing 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. In making this assessment, the group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and yield criterion if the prepayment amount substantially represents unpaid amounts of principal and yield on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual profit (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

Financial assets at FVTPL	▶ These assets are subsequently measured at fair value. Net gains and losses, including any profit or dividend income, are recognised in the consolidated statement of profit or loss.
Financial assets at amortised cost	▶ These assets are subsequently measured at amortised cost using the effective profit method. The amortised cost is reduced by impairment losses. Profit, foreign exchange gains and losses and impairment are recognised in the consolidated statement of profit or loss. Any gain or loss on derecognition is recognised in consolidated statement of profit or loss.
Equity investments at FVOCI	▶ These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to consolidated statement of profit or loss.

The group's financial assets are classified and measured as follows:

Cash and cash equivalents

Cash and cash equivalents consists of cash in hand and balances with banks and other financial institutions, and placements having short term maturity period and can be early terminated on demand.

Islamic finance receivables

Musawama, Ijara, Real Estate, and Tawarruq receivables are classified as "Islamic finance receivables" and are stated at amortised cost.

Musawama receivables

Musawama receivables arise from a financing structure when the purchaser and seller negotiate the price and terms, without the obligation to inform the cost of the commodity being negotiated to the buyer. The commodity is specifically identified and owned by the group and available for delivery to the purchaser on completion of the transaction. Musawama receivables are stated at amortised cost, net of provision for impairment.

Ijara receivables

Ijara receivables arise from financing structure when the purchase and immediate lease of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis. Ijara receivables are stated at amortised cost, net of provision for impairment.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

b) Classification and subsequent measurement (continued)

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018 (continued)
Real estate receivables
Real estate receivables relate to sales made to customers on musawama and ijara basis with the receivables being due up to a maximum of 120 months from the date of sale. Real estate receivables are stated at amortised cost, net of provision for impairment.

Tawarruq receivables
Tawarruq receivables represent amounts receivable on a deferred settlement basis for commodities sold under Mudaraba arrangements. Tawarruq receivables are stated at amortised cost, net of provision for impairment.

Financial assets – Subsequent measurement and gains and losses: Policy before 1 January 2018

Financial assets at fair value through profit or loss	▶ Measured at fair value and changes therein, including any profit or dividend income, were recognised in consolidated statement of profit or loss.
Held-to-maturity financial assets	▶ Measured at amortised cost using the effective profit method.
Loans and receivables	▶ Measured at amortised cost using the effective profit method.
Available-for-sale financial as-(sets (AFS	▶ Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to consolidated statement of profit or loss.

Financial liabilities – Subsequent measurement and gains and losses
The measurement of group's financial liabilities depends on their classification, as described below:

Islamic finance payables
Islamic finance payables represent amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payables are stated at the contractual amount payable, less deferred profit payable. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

Accounts payable and accruals
Liabilities are recognized for amounts to be paid in the future for subcontracting work and goods or services received, whether or not billed to the group.

c) Derecognition

Financial assets
The group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The group enters into transactions whereby it transfers assets recognised in its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

c) Derecognition (continued)

Financial liabilities

The group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired. The group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in consolidated statement of profit or loss.

d) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of financial assets

Policy applicable from 1 January 2018

The group previously recognized impairment losses on financial assets based on incurred loss model, under IAS 39. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The adoption of IFRS 9 has changed the group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

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

- Trade and other receivables and bank balances
- Islamic finance to customers
- Amounts due from related parties

Equity investments are not subject to ECL.

Determination of ECL on trade and other receivables and bank balances

With respect to the trade and other receivables, the group has applied the simplified approach and has calculated ECLs based on lifetime expected credit losses as the simplified approach does not require the changes in credit risk to be tracked. The group has established a provision matrix that is based on the group's historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the group's economic environment.

The management considers a financial asset in default when the contractual payments are 90 days past due. However, in certain cases, the management may also consider a financial asset to be in default when internal or external information indicates that the group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The group does not determine ECLs on bank balances, staff receivables and refundable deposits (included under other receivables) as these are considered to be of low risk and the group does not expect to incur any material credit losses on these instruments.

Determination of ECL on Islamic finance receivables and amounts due from related parties

The group has applied general approach under IFRS 9 for determination of ECLs on Islamic finance receivables and amounts due from related parties. Under the general approach, the ECLs are recognized in three stages. For exposures where there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit loss that result from default events that are possible within next 12 months (a 12-month ECL classified in Stage 1). With respect to exposures, for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL classified in Stage 2). Further, the group measures loss allowances at an amount equal to lifetime ECL that are determined to be credit impaired based on objective evidence of impairment (a lifetime ECL classified in Stage 3). The group considers amounts due from related parties to have low credit risk when the counter party has a strong liquidity position to meet its contractual cash flow obligations in the near term.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)
Policy applicable from 1 January 2018 (continued)
Determination of ECL on Islamic finance receivables and amounts due from related parties (continued)

Life time ECL is the ECL that result from all possible default events over the expected life of a financial instrument. The 12 month 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 ECLs and 12 month ECLs are calculated either on an individual basis or on a collective basis depending on the nature of the underlying portfolio of financial instruments.

Determining the stage of Expected Credit Loss
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 Islamic finance receivables or amounts due from related parties are credit impaired. The group considers a financial asset to be credit 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

At the reporting date, if the credit risk of Islamic finance receivables or amounts due from related parties have not increased significantly since initial recognition or not credit impaired, these financial assets are classified as stage 1.

Measurement of ECLs
ECL is a probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at an appropriate discount rate relevant to the amounts due from related parties. Cash shortfall represents the difference between cash flows due to the group and the cash flows that are expected to be received. For amounts due from related parties receivable on demand, the group does not consider the impact of discounting the future cash flow shortfalls to be material as these balances are expected to be settled in a short period of time. The key elements in the measurement of ECL included probability of default (PD), loss given default (LGD) and exposure at default (EAD). The determination of these elements require considerable judgment from the management.

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 adjustments into the determined ECL. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The management reviews these forecasts and estimates on a regular basis.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)
Policy applicable from 1 January 2018 (continued)
Determination of ECL on Islamic finance receivables and amounts due from related parties (continued)
Write off
The gross carrying amount of Islamic finance receivables 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 islamic finance receivables in accordance with the instructions of CBK on the classification of credit facilities and calculation of provisions. Credit facilities 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 credit facility 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 but not impaired and past due and impaired loans 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 up to 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 credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning.

Policy before 1 January 2018
An assessment is made at each reporting date to determine, in case of financial asset, whether there is objective evidence that a specific financial asset may be impaired and, in case of other assets, whether there is an indication that a specific asset may be impaired. A financial asset or a group of financial assets are impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If such evidence or indication exists, any impairment loss is recognised in the consolidated statement of profit or loss.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. If such evidence exists, an impairment loss is recognised in the consolidated statement of profit or loss.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)
Policy applicable before 1 January 2018 (continued)
Impairment is determined as follows:

(a) for assets carried at amortized cost, impairment is based on estimated cash flows discounted at the original effective rate of return;
(b) for assets carried at fair value, impairment is the difference between cost and fair value; and
(c) for assets carried at cost, impairment is the difference between cost and present value of future cash flows discounted at the current market rate of return for a similar financial asset.

In addition, in accordance with CBK instructions, a minimum general provision of 1% on all finance facilities net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, is recognized.

For AFS financial assets, the group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Except for equity instruments classified as available-for-sale, reversal of impairment losses is recognized in the consolidated statement of profit or loss. Impairment losses on available-for-sale equity investments are not reversed through the consolidated statement of profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

Impairment of non-financial assets
The group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)
For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at the reporting date and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Fair value measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable;

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trading properties
Trading properties are held for short term purposes and are stated at the lower of cost and net realisable value determined on an individual basis. Cost comprises the purchase cost of real estate and other expenses incurred in order to complete the transaction. Net realisable value is based on estimated selling price less any further costs to be incurred on disposal of real estate.

Investment properties
Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of profit or loss in the period in which they arise. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying appropriate valuation models

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is the weighted average cost and includes those expenses incurred in bringing each product to its present location and condition. Net realisable value is estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses, if any. Leasehold lands are subsequently revalued to its market value as determined by a real estate valuer. Revaluation of leasehold lands is performed frequently enough to ensure that the fair value of the property does not differ materially from its carrying amount at the reporting date. When an asset is revalued, any increase in the carrying amount arising on revaluation is credited to consolidated statement of comprehensive income in the asset revaluation surplus, except to the extent that a revaluation increase merely restores the carrying value of an asset to its original cost, whereby it is recognized as income. A decrease resulting from a revaluation is initially charged directly against any related revaluation surplus held in respect of that same asset, the remaining portion being charged as an expense. On disposal the related revaluation surplus is credited directly to retained earnings.

Depreciation is calculated on a straight-line basis over the estimated useful lives of assets as follows:

Buildings	20-40 years
Furniture and fixtures	3-5 years
Tools and office equipment	3-5 years
Motor vehicles	1-4 years
Leased motor vehicles	over lease term

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable, if any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognized in the consolidated statement of profit or loss as the expense is incurred.

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Treasury shares

The group's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in equity (treasury shares reserve) which is non-distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings and then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are distributed on these shares and the voting rights related to these shares are discarded. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent company (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset (or assets), even if that asset (or those assets) is not explicitly specified in an arrangement.

Group as a lessee

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Capialised leased assets are depreciated over the shorter of the estimated useful life of the assets or the lease term. Leasehold property is amortised over the remaining lease term until end of January 2023 (representing the lease term), less any accumulated impairment.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessor

Leases in which the group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Employees' end of service benefits

The group provides end of service benefits to all its employees under the Kuwait Labour Law. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the group makes contributions to the Public Authority for Social Security calculated as a percentage of the employee's salaries. The group's obligations are limited to these contributions, which are expensed when due.

Foreign currencies

The group's consolidated financial statements are presented in KD, which is also the parent company's functional currency. For each entity, the group determines the functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. The group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to consolidated statement of profit or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by the group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange prevailing at the reporting date. Differences arising on settlement or translation of monetary items are recognised in consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or consolidated statement of profit or loss are also recognised in OCI or consolidated statement of profit or loss, respectively).

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into KD at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified in consolidated statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Fiduciary assets
The group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the consolidated financial statements, as they are not assets of the group.

3.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

Operating lease commitments–group as lessor
The group has entered into commercial property leases on its investment property portfolio and commercial operating leases on its motor vehicle fleet portfolio. The group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and fleet, and accordingly accounts for the contracts as operating leases.

Classification of financial assets

Effective from 1 January 2018 (IFRS 9)
The group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Effective before 1 January 2018 (IAS 39)
Management has to decide on acquisition of financial assets whether it should be classified as available-for-sale, held to maturity, investments at fair value through profit or loss or as loans and receivables. In making the judgment, the group considers the primary purpose for which it is acquired and how it intends to manage and report performance.

Classification of real estate and leasehold property
Management decides upon acquisition of real estate whether it should be classified as trading property, investment property or leasehold property. The group classifies property as trading property if it is acquired principally for sale in the ordinary course of business. The group classifies property as investment property or leasehold property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use. Property held for use in the production or supply of goods and services or for administrative purposes is classified as property and equipment.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related consolidated financial statement line items below. The group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the group. Such changes are reflected in the assumptions when they occur.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of associates

Investment in associates are accounted for under the equity method of accounting for associates, whereby these investments are initially stated at cost, and are adjusted thereafter for the post-acquisition change in the group's share of the net assets of the associates less any impairment losses. The group is required to assess, at each reporting date, whether there are indications of impairment. If such indications exist, the management estimates the recoverable amount of the associate in order to determine the extent of the impairment loss (if any). The identification of impairment indicators and determination of the recoverable amounts require management to make significant judgements, estimates and assumptions.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment.

Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Impairment of goodwill

The group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the fair value less costs to sell or value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of leasehold property

The carrying amounts of the leasehold property are reviewed at each reporting date to determine whether there is any indication or objective evidence of impairment or when annual impairment testing for an asset is required. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment is recognised in the consolidated statement of profit or loss whenever the carrying amount of an asset exceeds its recoverable amount. The management assesses the leasehold property for impairment based on market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Estimation of net realisable value for trading properties

Inventory property is stated at the lower of cost and net realisable value (NRV). NRV for completed inventory property is assessed by reference to market conditions and prices existing at the reporting date and is determined by the group, based on comparable transactions identified by the group for properties in the same geographical market serving the same real estate segment.

Valuation of investment properties

The fair value of investment properties is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS 13 Fair Value Measurement.

Investment properties under construction are measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in Note 16.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of financial assets at amortised cost

Effective before 1 January 2018 (IAS 39)

An estimate of the collectible amount is made when collection of the full amount is no longer probable. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Expected Credit Losses on financial assets - applicable from 1 January 2018

The group estimates Expected Credit Loss (ECL) for all financial assets carried at amortised cost.

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

- Determining criteria for significant increase in credit risk;
- Choosing appropriate 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.

Information about significant judgements and estimates made by the group in the above areas is set out in Note 31.1.

For trade receivables, the group applies a simplified approach in calculating ECL. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Actual results may differ from these estimates.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- An earnings multiple;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined. As a result, these investments are carried at cost less impairment.

4 GROUP INFORMATION

The principal subsidiaries of the group are as follows:

Name of company	Country of incorporation	Effective interest in equity %		Principal activities
		2018	2017	
Tawazun Holding Company K.S.C (Closed)*	Kuwait	**99.9%**	99.9%	Holding Co.
First East General Trading Company W.L.L.* ("First East")	Kuwait	**99%**	99%	General trading
East Gate Real Estate Company (Sole proprietorship)**	Kuwait	**100%**	99%	Real estate services
A'ayan Leasing Holding Company K.S.C. (Holding)*	Kuwait	**99.9%**	99.9%	Leasing activities
Mubarad Holding Company K.S.C.P. ("Mubarrad") ***	Kuwait	**50.5%**	48.1%	Trading and renting heavy vehicles
A'ayan Real Estate Company K.S.C.P. ("AREC")	Kuwait	**59.1%**	57.8%	Real estate services
Jahraa Mall – JV	Kuwait	**84%**	83.9%	Real estate services
Anan Real Estate Financing Company K.S.C. (Closed) (subsidiary of AREC)	Kuwait	**59.1%**	57.8%	Real estate Financing
Takatuf Real Estate Company K.S.C (Closed) (subsidiary of Mubarrad)	Egypt	**50.5%**	48.1%	Real estate services
Yall Mall – JV	Kuwait	**73.0%**	72.1%	Real estate services

*The group's effective interest in the subsidiaries is 100%. The group directly holds the shares in the respective subsidiaries as mentioned above, and the remaining shares are held indirectly in the name of nominees on behalf of the parent company. The nominees have confirmed in writing that the parent company is the beneficial owner of the shares in the subsidiary.

** During the year, ownership of East Gate Real Estate Company (Sole proprietorship) was transferred to the parent company, consequently the parent company directly holds shares in this subsidiary.

***While the group owned less than 50% of the voting rights of Mubarad Holding Company K.S.C.P. ('Mubarrad') in 2017, the group determined that it had de facto control over Mubarrad. The factors considered by the group included the voting shares, the relative size and dispersion of holdings by other shareholders, attendance and voting patterns at previous shareholders' meetings and board meetings and the sharing of key management positions between the group and Mubarrad.

Material partly owned subsidiary:
The group has concluded that A'ayan Real Estate Company K.S.C.P. ('AREC') and Mubarrad are the only subsidiaries with non-controlling interests that are material to the consolidated financial statements. Financial information of subsidiaries that have material non-controlling interests are provided below:

Accumulated balances of material non-controlling interests:

	2018	2017
	KD	KD
A'ayan Real Estate Company K.S.C.P.	**28,269,417**	27,091,167
Mubarrad Transportation Company K.S.C.P.	**9,943,982**	10,220,081

4 GROUP INFORMATION (continued)

Profit/(loss) allocated to material non-controlling interests:

		2018	2017
		KD	KD
A'ayan Real Estate Company K.S.C.P.		2,537,279	(3,152,392)
Mubarrad Transportation Company K.S.C.P.		852,421	1,001,291
Insha'a Holding Company K.S.C. (Holding)*		-	211,436

*During 2017, the parent company and Mubarrad Transportation Company K.S.C.P ("Mubarrad"), a subsidiary of the parent company, entered into an agreement with a third party for sale of their entire equity interest of 72.91% and 25.03% respectively, in Insha'a Holding Company K.S.C. (Holding) ("Insha'a" previously, a subsidiary of the group). The group recognized gain amounting to KD 6,811,495 in the consolidated statement of profit or loss, resulting from this transaction.

Summarised financial information of these subsidiaries is provided below.This information is based on amounts before eliminating intra group transactions and consolidation related adjustments.

	2018		2017		
	AREC KD	Mubarrad KD	AREC KD	Mubarrad KD	Insha'a KD
Statement of profit or loss					
Income	13,085,930	2,033,310	3,117,690	3,629,392	1,051,719
Expenses	(3,432,541)	(353,499)	(4,784,531)	(1,779,866)	(251,654)
Profit (loss) for the year	9,653,389	1,679,811	(1,666,841)	1,849,526	800,065
Total comprehensive income (loss) for the year	9,649,275	1,909,334	(1,652,205)	1,913,236	(187,716)
Statement of financial position					
Total assets	114,560,140	25,038,513	113,781,258	23,937,989	-
Total liabilities	20,069,151	4,892,043	22,263,325	4,211,333	-
Total equity	94,490,989	20,146,470	91,517,933	19,726,656	-
Cash flows					
Operating	(330,851)	1,533,008	10,748,273	980,016	-
Investing	(3,180,868)	969,599	(2,118,200)	1,640,539	-
Financing	(450,864)	(900,409)	(4,360,497)	(1,848,377)	-
Net (decrease) increase in cash and cash equivalents	(3,962,583)	1,602,198	4,269,576	772,178	-

5 NET INCOME FROM LEASING OPERATIONS

	2	017
	KD	KD
Operating lease rental income	**22,206,146**	21,018,615
Service and maintenance income	**1,273,652**	1,471,486
Gain on disposal of motor vehicles	**984,323**	661,897
	24,464,121	23,151,998
Less: Depreciation of leased motor vehicles (Note 18)	**(9,754,693)**	(8,910,965)
Less: Maintenance and insurance expenses	**(4,905,625)**	(4,573,173)
Net income from leasing operations	**9,803,803**	9,667,860

6 REAL ESTATE AND CONSTRUCTION INCOME

	2	017
	KD	KD
Sale of trading properties	**850,000**	9,224,092
Cost of sales of trading properties	**(775,950)**	(7,637,003)
Gain on sale of trading properties	**74,050**	1,587,089
Sale of construction material	-	2,711,282
Cost of construction material sold	-	(1,889,012)
Gross profit on sale of construction material	-	822,270
Gain on sale of investment properties (Note 16)	**215,226**	1,561
Unrealised gain (loss) on revaluation of investment properties (Note 16)	**10,157,642**	(2,735,526)
Rental income from investment properties	**7,364,823**	5,963,758
Rental income from leasehold property	**3,105,516**	1,928,325
Amortization of leasehold property (Note 19)	**(1,331,761)**	(1,215,004)
Real estate related expenses	**(2,853,871)**	(2,629,674)
	16,731,625	3,722,799

7 INCOME FROM INVESTMENTS AND SAVING DEPOSITS

	2018 KD	2017 KD
Investment deposits and savings profits	**279,925**	254,057
Dividend income	**278,703**	114,223
Gain on sale of investment in associates	**-**	116,813
Gain on sale of available-for-sale investments	**-**	120,372
Gain on sale of financial assets carried at FVTPL	**77,923**	-
Changes in fair value of financial assets carried at FVTPL	**(262,999)**	-
	373,552	605,465

8 OTHER INCOME

	2018 KD	2017 KD
Gain on sale of other assets	**1,419,454**	-
Recoveries from insurance claims	**450,000**	-
Other income	**503,606**	771,746
	2,373,060	771,746

9 NET IMPAIRMENT LOSSES, EXPECTED CREDIT LOSSES AND PROVISIONS

	2018 KD	2017 KD
Reversal of impairment losses on Islamic finance receivables (Note 13)	**(133,512)**	(1,516,627)
Impairment losses on other assets (Note 17)	**1,075,609**	2,183,686
ECL on trade receivables (Note 17)	**3,817,271**	-
Impairment losses on trading properties (Note 14)	**-**	72,847
Impairment losses on property and equipment (Note 18)	**1,139,811**	142,500
Reversal of losses on investment in associates	**-**	(310,434)
Impairment losses on available for sale investments	**-**	394,761
Other provisions	**333,467**	801,400
	6,232,646	1,768,133

10 OTHER EXPENSES

	2018	2017
	KD	KD
Premises expenses	**1,185,332**	1,262,789
Legal and professional fees	**972,111**	773,174
Marketing and advertising expenses	**161,951**	161,469
BOD remuneration of subsidiaires	**55,000**	55,000
Other expenses	**835,865**	1,318,447
	3,210,259	3,570,879

11 BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated by dividing the profit (loss) for the year attributable to the equity holders of the parent company by the weighted average number of shares outstanding during the year. As there are no dilutive instruments, basic and diluted earnings per share are identical.

	2018	2017
	KD	KD
Profit (loss) attributable to the equity holders of the parent company (KD)	**3,029,336**	(850,114)
Weighted average number of shares outstanding during the year (shares)	**801,673,982**	801,673,982
Basic and diluted earnings (loss) per share (fils)	**3.78**	(1.06)

12 CASH AND CASH EQUIVALENTS

	2018	2017
	KD	KD
Cash and bank balances	**5,919,287**	8,265,121
Short-term placements with financial institutions	**20,383,300**	20,425,000
Cash and bank balances as reported in the consolidated statement of financial position	**26,302,587**	28,690,121
Less: restricted balances	**(20,378)**	(20,532)
Cash and cash equivalents reported in consolidated statement of cash flows	**26,282,209**	28,669,589

Short-term placements with financial institutions are made for varying periods ranging from one day upto (six months) and can be early terminated on demand. Short-term placements carry an average effective profit rate of 2% (2017: 2%) per annum.

13 ISLAMIC FINANCE RECEIVABLES

	Musawama	Ijara	Real estate	Tawaruq	Total
31 December 2018	**KD**	**KD**	**KD**	**KD**	**KD**
Gross receivables	**5,372,069**	**2,127,858**	**96,144**	**1,134,899**	**8,730,970**
Less: deferred income	**(911,029)**	**(343,872)**	**(7,330)**	**(104,463)**	**(1,366,694)**
	4,461,040	**1,783,986**	**88,814**	**1,030,436**	**7,364,276**
Less: impaiment losses					
General	**-**	**-**	**887**	**-**	**887**
Specific	**4,461,040**	**1,783,986**	**-**	**1,023,267**	**7,268,293**
	4,461,040	**1,783,986**	**887**	**1,023,267**	**7,269,180**
	-	**-**	**87,927**	**7,169**	**95,096**
Gross amount of finance facilities individually determined to be impaired	**5,372,069**	**2,127,858**	**-**	**1,134,899**	**8,634,826**

	Musawama	Ijara	Real estate	Tawaruq	Total
31 December 2017	**KD**	**KD**	**KD**	**KD**	**KD**
Gross receivables	5,565,364	2,151,200	1,218,559	1,242,146	10,177,269
Less: deferred income	(941,522)	(349,059)	(127,256)	(127,526)	(1,545,363)
	4,623,842	1,802,141	1,091,303	1,114,620	8,631,906
Less: impaiment losses					
General	-	-	10,911	-	10,911
Specific	4,623,842	1,802,141	-	1,064,759	7,490,742
	4,623,842	1,802,141	10,911	1,064,759	7,501,653
	-	-	1,080,392	49,861	1,130,253
Gross amount of finance facilities individually determined to be impaired	5,565,364	2,151,200	-	1,242,146	8,958,710

The fair value of Islamic finance receivables approximates the carrying value at the reporting date except for the general provision, recognised in the consolidated financial statements, which is based on the minimum general provision requirements of the Central Bank of Kuwait as explained in Note 3.

Expected Credit Losses on credit facilities determined under IFRS 9 amounted to KD 7,262,418 as at 31 December 2018. The group has recorded credit losses on Islamic finance receivables based on CBK provisioning requirements as these provisions are higher than the expected credit losses under IFRS 9 as at 1 January (the initial date of application) and at 31 December 2018.

13 ISLAMIC FINANCE RECEIVABLES (continued)

The distribution of Islamic finance receivables (net of credit losses) by industry sector is as follows:

	2018	2017
	KD	KD
Construction and real estate	**87,927**	1,080,392
Others	**7,169**	49,861
	————	————
	95,096	1,130,253
	════	════

Islamic finance receivables are stated net of impairment losses as follows:

	General		Specific		Total	
	2018	2017	2018	2017	2018	2017
	KD	KD	KD	KD	KD	KD
At 1 January	**10,911**	1,655,325	**7,490,742**	8,967,201	**7,501,653**	10,622,526
Net reversal during the year (Note 9)	**(10,024)**	(58,360)	**(123,488)**	(1,458,267)	**(133,512)**	(1,516,627)
Transfers to other liabilities	-	(1,586,054)	-	-	-	(1,586,054)
Written off	-	-	**(98,961)**	(18,192)	**(98,961)**	(18,192)
	————	————	————	————	————	————
At 31 December	**887**	10,911	**7,268,293**	7,490,742	**7,269,180**	7,501,653
	════	════	════	════	════	════

14 TRADING PROPERTIES

Certain properties located in Kuwait, Oman and Lebanon with an aggregate carrying value of KD 1,053,399 (2017: KD 1,050,238) are registered in the names of nominees on behalf of the group, and who have confirmed in writing that the group has the beneficial ownership interest in the underlying properties through a letter of assignment. Properties located in Oman and Lebanon are not registered in the name of the group since the group has neither branches nor subsidiaries in those countries.

Trading properties include repossessed properties of KD 10,908,511 (2017: KD 10,908,511) recorded against real estate financing deals of KD 6,525,531 (2017: KD 6,525,531) and the difference which represents the down payment expected to be refunded to the customer, relating to the real estate financing deals, less incurred expenses, was recorded in other liabilities of KD 3,551,067 (2017: KD 4,376,865) (note 26).

Trading properties of the group are stated at lower of cost and net realisable value. The net realisable value of properties located in Kuwait is determined based on the lower of two valuations obtained as at 31 December 2018 from the independent valuers. With respect to properties located outside Kuwait, the group obtains one valuation from an independent valuer. The assessment of the net realisable values of trading properties has been carried out based on comparable market values for similar properties considering the rental value, maintenance status, market knowledge and historical transactions.

Certain properties amounting to KD 550,939 (2017: KD 550,939) are pledged against Islamic finance payables (Note 25b).

15 INVESTMENT IN ASSOCIATES

The principal associates of the group are as follows:

Name of company	Country of incorporation	Principal activities	Equity interest % 2018	Equity interest % 2017
Abyar Real Estate Development Company K.S.C.P.	Kuwait	Real estate	**17.0%**	17.0%
Hajar Tower Real Estate Company K.S.C. (Closed)	Kuwait	Residential complex services	**31.5%**	31.5%
Mashaer Holding Company K.S.C.P.	Kuwait	Real Estate	**24.4%**	24.4%
Rawahel Holding Company K.S.C. (Closed)	Kuwait	Transportation	**33.4%**	33.3%
Al-Jadaf Real Estate Company K.S.C. (Closed)	Kuwait	Real Estate	**26.5%**	26.5%
Oman Integral Logistcs Company O.S.C.C*	Oman	Logistic Services	**50.0%**	50.0%
Aayan Leasing Company – W.L.L.	Qatar	Leasing Company	**33.0%**	33.0%
Al Qawa Holding Company	Kuwait	Holding Company	**45.0%**	45.0%

*Investment in associate includes goodwill of KD 112,822 (2017: KD 112,822).

	2018 KD	2017 KD
Share of associates' assets and liabilities:		
Assets	**84,493,933**	89,517,643
Liabilities	**(40,598,486)**	(41,102,467)
Net assets	**43,895,447**	48,415,176
Contingent liabilities and commitments	**1,789,320**	2,096,518

	2018 KD	2017 KD
Share of associates' revenue and results:		
Revenue	**7,220,476**	6,880,606
Results	**65,335**	(6,300,024)

(a) Investment in associates with a carrying amount of KD 19,542,313 (2017: KD 21,099,629) are listed and have a market value (based on quoted market prices) of KD 6,496,024 (2017: KD 6,618,933).

The management has determined that the decline in fair value of the associates is not an evidence of impairment. Accordingly, the management concluded that these associates should not be tested for impairment as at the reporting date.

(b) The group exercises significant influence (even though the precentage of ownership is less than 20%) over, Abyar Real Estate Development Company K.S.C. through representation on the board of directors and participation in the policy making processes.

(c) During the year, the group received dividend distributions from its associates of KD 2,339,285 (2017: KD 2,357,899).

The management has carried out the assessment of group's investment in associates to identify any indicators of impairment. The management has considered factors such as changes in the investee's financial condition, any significant adverse changes in economy, market, legal environment, industry or the political environment affecting the investees business. The management has not identified any indicators of further impairment on group's investment in associates, accordingly, no further impairment is recognised in the consolidated financial statements at the reporting date.

15 INVESTMENT IN ASSOCIATES (continued)

(d) The following table provides summarised information of the group's material investment in associates:

2018	Abyar Real Estate Development Company K.S.C.P.	Mashaer Holding Company K.S.C.P.	Hajar Tower Real Estate Company K.S.C. (Closed)	Rawahel Holding Company K.S.C. (Closed)	Al-Jadaf Real Estate Company K.S.C. (Closed)	Aayan Qatar Company	Oman Integral Logistcs Company O.S.C.C
	KD	KD	KD	KD	KD	KD	KD
Assets	179,142,576	30,244,304	56,871,104	36,057,595	11,062,039	24,419,841	10,555,329
Liabilities	(94,574,574)	(9,025,590)	(42,187,019)	(16,496,101)	(51,016)	(5,563,705)	(3,085,165)
Net assets	84,568,002	21,218,714	14,684,085	19,561,494	11,011,023	18,856,136	7,470,164
Contingent liabilities	9,544,715	688,800	-	-	-	-	-
Net operating income (loss)	276,611	(452,728)	4,026,657	6,008,530	5,602	3,618,724	2,388,633
Results for the year	(1,686,881)	(3,988,135)	1,620,044	853,743	(13,825)	2,639,418	350,083
Other comprehensive income (loss) for the year	460,753	(475,690)	-	(130,485)	-	-	-
Carrying value	14,364,473	5,177,840	4,625,486	6,530,933	2,919,829	6,222,525	3,847,904

15 INVESTMENT IN ASSOCIATES (continued)

2018	Abyar Real Estate Development Company K.S.C.P.	Mashaer Holding Company K.S.C.P.	Hajar Tower Real Estate Company K.S.C. (Closed)	Rawahel Holding Company K.S.C. (Closed)	Al-Jadaf Real Estate Company K.S.C. (Closed)	Aayan Qatar Company	Oman Integral Logistcs Company O.S.C.C
	KD	KD	KD	KD	KD	KD	KD
Assets	180,435,543	37,022,696	60,496,617	32,880,341	15,017,924	25,046,143	11,493,150
Liabilities	(94,117,583)	(9,847,888)	(43,465,675)	(13,989,889)	(51,016)	(5,524,008)	(4,079,112)
Net assets	86,317,960	27,174,808	17,030,942	18,890,452	14,966,908	19,522,135	7,414,038
Contingent liabilities	10,858,504	1,033,200	-	-	-	-	-
Net operating (loss) income	(658,910)	(4,478,512)	4,858,880	5,686,069	-	3,569,302	2,388,633
Results for the year	(3,993,343)	(6,077,911)	(17,437,923)	972,550	(49,148)	2,603,371	350,083
Other comprehensive (loss) income for the year	(1,273,254)	61,764	-	685,409	-	-	-
Carrying value	14,573,659	6,525,971	5,404,497	6,758,674	2,927,426	6,442,305	3,815,271

16 INVESTMENT PROPERTIES

	2018 KD	2017 KD
As at 1 January	128,905,000	129,232,036
Additions	4,451,884	4,578,463
Disposals	(4,248,385)	(817,964)
Relating to disposal of a subsidiary	-	(1,454,855)
Unrealized gain (loss) on revaluation of investment properties (Note 6)	10,157,642	(2,735,526)
Foreign currency translation reserve	1,389,712	102,846
As at 31 December	140,655,853	128,905,000
Properties fully developed	137,149,448	126,658,641
Properties under development	3,506,405	2,246,359
	140,655,853	128,905,000

During the year, the group has sold investment properties with carrying value of KD 4,248,385 (2017: KD 817,964) resulting in a gain on sale of amounting to KD 215,226 (2017: KD 1,561) (Note 6).

Investment properties with a fair value of KD 77,227,347 (2017: KD 72,707,198) have been pledged as security for Islamic finance payables as set out in (Note 25a & b).

The fair value of properties located in Kuwait is determined based on the lower of two valuations obtained as at 31 December 2018 from the independent valuers. With respect to properties located outside Kuwait, the group obtains one valuation from an independent valuer. The valuation of the properties has been determined based on comparable market values for similar properties considering the rental value, maintenance status, market knowledge and historical transactions. The investment properties are classified under level 2 of the fair value hirerachy (Note 33).

Based on 5% increase/decrease in average market prices (per sqm), the value of the investment properties would increase/decrease by KD 127 (2017: KD 88) per sqm which would impact the consolidated statement of profit or loss with total amount of KD 7,032,793 (2017: KD 6,445,250).

17 OTHER ASSETS

	2018 KD	2017 KD
Trade and leasing receivables	4,799,166	7,381,852
Receivables on sale of real estate	-	137,197
Prepaid expenses	**1,223,435**	1,285,612
Amounts due from related parties (Note 29)	**1,947,514**	63,724
Advances to suppliers	1,283,048	280,748
Inventories	977,726	1,557,239
Refundable deposits	1,044,899	803,211
Other receivables	**1,818,746**	7,722,103
	13,094,534	19,231,686

Other assets are stated net of impairment losses as follows:	2018 KD	2017 KD
As at 1 January	**13,033,785**	18,436,588
Sale of a subsidiary	-	(453,743)
Impairment charge on other assets (Note 9)	**1,075,609**	2,183,686
ECL on trade receivables (Note 9)	**3,817,271**	-
Foreign currency translation reserve	**946**	(69,844)
Written off	-	(7,062,902)
As at 31 December	**17,927,611**	13,033,785

17 OTHER ASSETS (continued)

As at 31 December, the ageing of trade and leasing receivables, net of expected credit losses against trade accounts receivable amounting to KD 12,410,677 (2017: KD 8,593,406) is as follows:

	Total	Neither past due nor impaired	Past due but not impaired < 30 days	30 – 60 days	61 – 90 days	91 – 180 days	> 180 days
	KD	KD	KD	KD	KD	KD	KD
2018	**4,799,166**	-	**730,957**	**597,656**	**556,779**	**670,815**	**2,242,959**
2017	7,381,852	-	1,198,122	1,118,914	719,350	1,033,678	3,311,788

Receivables net of expected credit losses are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the group to obtain collateral over receivables.

18 PROPERTY AND EQUIPMENT

	Leasehold lands	Buildings	Furniture and fixtures	Tools and office equipment	Motor vehicles	Leased motor vehicles	Capital work in progress	Total
	KD	KD	KD	KD	KD	KD	KD	KD
Cost and valuation								
At 1 January 2018	10,962,000	3,731,844	1,108,247	5,296,057	2,964,312	58,772,099	291,959	83,126,518
Additions	-	23,376	17,856	63,956	478,428	19,831,412	103,196	20,518,224
Foreign currency translation reserve	-	2,719	11,996	-	8,776	4,962	-	28,453
Impairment losses (Note 9)	-	-	(84,432)	(11,699)	(1,041,790)	-	(1,890)	(1,139,811)
Revaluation during the year	(16,000)	-	-	-	-	-	-	(16,000)
Transfers	-	-	-	-	(2,120)	(7,278,377)	-	(7,280,497)
Disposals	-	-	-	-	(335,208)	(10,311,094)	(7,250)	(10,653,552)
At 31 December 2018	10,946,000	3,757,939	1,053,667	5,348,314	2,072,398	61,019,002	386,015	84,583,335
Depreciation								
At 1 January 2018	-	768,088	924,193	4,768,787	546,818	15,900,008	-	22,907,894
Depreciation charge for the year	-	186,400	12,484	125,367	437,754	9,316,939	-	10,078,944
Foreign currency translation reserve	-	2,476	1,347	-	-	7,357	-	11,180
Relating to transfers	-	-	-	-	(88,135)	(7,192,362)	-	(7,280,497)
Relating to disposals	-	-	-	-	(59,514)	(283,814)	-	(343,328)
At 31 December 2018	-	956,964	938,024	4,894,154	836,923	17,748,128	-	25,374,193
Net book value: At 31 December 2018	**10,946,000**	**2,800,975**	**115,643**	**454,160**	**1,235,475**	**43,270,874**	**386,015**	**59,209,142**

18 PROPERTY AND EQUIPMENT (continued)

	Leasehold lands	Land utlization rights	Buildings	Furniture and fixtures	Tools and office equipment	Motor vehicles	Leased motor vehicles	Capital work in progress	Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD
Cost and valuation									
At 1 January 2017	10,884,000	2,258,797	5,375,815	1,251,052	13,880,560	2,352,089	56,571,583	63,062	92,636,958
Additions	-	-	420	15,100	89,065	1,104,467	21,661,531	667,873	23,538,456
Disposal of subsidiary	-	(2,258,797)	(1,487,748)	(172,641)	(8,658,513)	(364,958)	-	(405,026)	(13,347,683)
Foreign currency translation reserve	-	-	(6,949)	7,542	(15,055)	(21,532)	(38,848)	-	(74,842)
Impairment losses (Note 9)	-	-	(142,500)	-	-	-	-	-	(142,500)
Revaluation during the year	78,000	-	-	-	-	-	-	-	78,000
Transfers	-	-	(7,194)	7,194	-	76,743	(7,135,745)	-	(7,059,002)
Disposals	-	-	-	-	-	(182,497)	(12,286,422)	(33,950)	(12,502,869)
At 31 December 2017	10,962,000	-	3,731,844	1,108,247	5,296,057	2,964,312	58,772,099	291,959	83,126,518
Depreciation									
At 1 January 2017	-	784,523	1,131,095	1,058,633	8,732,154	573,086	14,770,653	-	27,050,144
Depreciation charge for the year	-	-	213,304	15,403	258,583	371,506	8,539,459	-	9,398,255
Disposal of subsidiary	-	(784,523)	(568,568)	(149,660)	(4,217,608)	(170,904)	-	-	(5,891,263)
Foreign currency translation reserve	-	-	(6,028)	(1,898)	(4,342)	(2,914)	(18,473)	-	(33,655)
Relating to transfers	-	-	(1,715)	1,715	-	(167,187)	(6,891,815)	-	(7,059,002)
Relating to disposals	-	-	-	-	-	(56,769)	(499,816)	-	(556,585)
At 31 December 2017	-	-	768,088	924,193	4,768,787	546,818	15,900,008	-	22,907,894
Net book value: At 31 December 2017	10,962,000	-	2,963,756	184,054	527,270	2,417,494	42,872,091	291,959	60,218,624

The future minimum lease rent receivable on the operating leases of motor vehicles fleet is as follows:

	2018	**2017**
	KD	**KD**
Income receivable within one year	**11,625,599**	11,725,306
Income receivable within two to five years	**5,905,928**	6,724,193
	17,531,527	18,449,499

18 PROPERTY AND EQUIPMENT (continued)

Leasehold lands primarily comprise of lands which are leased from the government of State of Kuwait. The carrying value of leasehold lands are KD 10,946,000 (2017: KD 10,962,000).

The depreciation charge for the year has been allocated in the consolidated statement of profit or loss as follows:

	2018 KD	2017 KD
Depreciation of leased motor vehicles (Note 5)	**9,754,693**	8,910,965
Administrative expenses	**324,251**	487,290
	10,078,944	9,398,255

Fair value of leasehold land

The fair value of leasehold land is determined by independent real estate valuers on a periodical basis using market value approach. Under the market comparable method, the fair value is estimated based on comparable transactions. The market comparison approach is based upon the principal of substitution under which a potential buyer will not pay more for the property than it will cost buy a comparable substitute property. The unit of comparison applied by the valuers is the price per square metre ('sqm'). Varying these inputs by a reasonable margin does not result in a material impact on the consolidated financial statements.

19 LEASEHOLD PROPERTY

	2018 KD	2017 KD
As at 1 January	**6,775,563**	7,990,567
Amortisation (Note 6)	**(1,331,761)**	(1,215,004)
As at 31 December	**5,443,802**	6,775,563

Leasehold property represents the group's investment in a real estate project. Leasehold property is amortised over the remaining lease term expiring on January 2023 and is measured at cost less accumulated amortisation and impairment. Leasehold property was capitalised in February 2017 after receiving the notification of commencement of operations.

The carrying value of the leasehold property has been assessed for impairment based on the lower of two valuations obtained from external real estate appraisers with relevant experience in the market where the properties are located. The assessment of the carrying value of leasehold property has been carried out based on comparable market values for similar properties considering the rental value, maintenance status, market knowledge and historical transactions.

20 GOODWILL

Net book value of goodwill as at 31 December 2018 amounting to KD 1,036,879 (2017: KD 1,036,879) is allocated to each cash-generating unit (CGU) which is disclosed under segment information in Note 30. The recoverable amount of each business unit has been determined based on fair value less costs to sell or value-in-use calculation, using cash flow projections.

The carrying value of goodwill is tested for impairment on an annual basis (or more frequently if evidence exists that goodwill might be impaired) by estimating the recoverable amount of the CGU to which these items are allocated using valuation techniques such as value-in-use calculations. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management over a five years period and a relevant terminal growth rate. These cash flows are then discounted to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant cash generating unit. The inputs used in determining the recoverable amount of goodwill using the value-in-use method are as follows:

- Discount rate of ranging between 11% to 13% (2017: 10% to 12%).
- Annual growth rates for pre-tax cash flows ranging between 2% to 3% (2017: 2% to 3%).
- Terminal growth rate ranging between 2% to 3% (2017: 2% to 3%).

Further, the management has also revised the future cash flow projections based on the actual financial information of the base year also considering the impact of such downward changes on future cash flow growth rates. Based on such analysis, the group has recognised no impairment losses with respect to goodwill.

The group has also performed a sensitivity analysis by varying the inputs used in determining the recoverable amount of goodwill to a reasonable margin and it did not indicate any significant impact on the consolidated financial statements.

21 SHARE CAPITAL

	2018 KD	2017 KD
Authorised shares of 100 fils each (814,038,824 shares)	**81,403,882**	81,403,882
Issued shares of 100 fils each, fully paid in cash	**81,403,882**	81,403,882

22 RESERVES

a) **Statutory reserve**

In accordance with the Companies Law and the parent company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit before directors fees, contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax and Zakat shall be transferred to the statutory reserve. The annual general assembly of the parent company may resolve to discontinue such transfer when the reserve exceeds 50% of the paid-up share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital. No transfers were made during the year as the group incurred accumulated losses.

b) **General reserve**

No transfers were made during the year as the group incurred accumulated losses.

The general reserve (along with treasury shares reserve) of the parent company are maintained against the historical cost of treasury shares and is not available for distribution throughout the holding period of these treasury shares (Note 24).

23 ASSET REVALUTION SURPLUS

This represents excess of valuation over cost of leasehold land (classified as property and equipment) in Kuwait. This reserve is currently not available for distribution to the shareholders and will be transferred to accumulated losses upon disposal.

The fair value of leasehold land is determined by independent real estate valuers on a annual basis using market value approach. Under the market comparable method, the fair value is estimated based on comparable transactions. The market comparison approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost buy a comparable substitute property. The unit of comparison applied by the valuers is the price per square metre ('sqm'). Varying these inputs by a reasonable margin does not result in a material impact on the consolidated financial statements.

24 TREASURY SHARES

	2018 KD	2017 KD
Number of treasury shares	**12,364,842**	12,364,842
Percentage of capital	**1.5%**	1.5%
Cost – KD	**11,339,726**	11,339,726
Market value – KD	**461,209**	431,534
Weighted average market price – fils	**37.3**	34.9

As at 31 December 2018 no treasury shares were pledged.

Reserves equivalent to the cost of the treasury shares held less treasury shares reserve are not available for distribution during the holding period of such shares as per CMA guidelines.

25 ISLAMIC FINANCE PAYABLES

	2018 KD	2017 KD
Relating to the parent company (Note a)	**138,585,274**	146,367,576
Relating to subsidiaries (Note b)	**15,064,455**	15,211,171
	153,649,729	161,578,747

a) The restructured debt of the parent company is due to be settled based on restructuring agreement dated 2 July 2012 and the amendments thereto.

During 2015, the parent company approached the lenders to reschedule the entire previously restructured debt amounting to KD 160 million (included in the total Islamic finance payables of the parent company until 31 December 2016) on a long term basis and also submitted an application to the Central bank of Kuwait and Financial Stability Law (FSL) Court for the amendment of the Original FSL application requesting an amendment in the repayment plans to be extended until the first quarter of 2021, by submitting a revised business plan detailing the sources of future cash flows.

25 ISLAMIC FINANCE PAYABLES (continued)

During the prior year, on 15 June 2017, the parent company obtained approval from the Special Circuit of the Court of Appeal (the FSL Judgement) on the amendment of the financial restructuring plan submitted by the parent company for rescheduling the outstanding Islamic finance payables of KD 160 million until the first quarter of 2021, which has become effective and enforceable against all investors. The parent company has made principal repayment of KD 15 million and KD 10 million on 11 September 2017 and on 29 March 2018, respectively. Based on the last rollover dated 27 September 2018, the approved amended amortization dates for the remaining principal Islamic finance payables amounting to KD 136.9 million (which excludes the accrued profit of KD 1.7m until 31 December 2018) are as follows:

Date	Payable in KD	Payable in USD (KD equivalent)	Payable in AED (KD equivalent)	Total KD
31 March 2019	7,659,388	2,140,501	274,943	**10,074,832**
31 March 2020	22,978,166	6,421,504	824,828	**30,224,498**
31 March 2021	73,654,637	20,360,731	2,586,219	**96,601,587**
Total	**104,292,191**	**28,922,736**	**3,685,990**	**136,900,917**

Islamic finance payables of the parent company are secured against collaterals in the form of investment properties as agreed in restructuring agreements amounting to KD 56 million (31 December 2017: KD 58 million), investment in an associate amounting to KD 31 million (31 December 2017: KD 34 million) and shares of certain consolidated subsidiaries.

b) Islamic finance payables relating to the subsidiaries of the group are secured against collaterals in the form of investment properties amounting to KD 21 million (2017: KD 15.1 million), certain trading properties amounting to KD 0.6 million (2017: KD 0.6 million) and the group's investment in shares of a wholly owned subsidiary.

Islamic finance payables carry an average effective profit rate of 5% (2017: 4%) per annum.

26 OTHER LIABILITIES

	2018 KD	2017 KD
Trade payables	**7,822,012**	7,900,493
Payable to financing customers on repossession of properties	**3,551,067**	4,376,865
Real estate payables	**1,735,228**	1,813,179
Advances from customers and security deposits	**3,324,227**	4,036,765
Employees' end of service benefits and leave provisions	**3,895,060**	3,914,993
Unclaimed cash dividends	**276,698**	328,137
Amounts due to related parties (Note 29)	**88,263**	103,079
Provisions and accrued expenses	**7,334,048**	6,595,833
Other payables	**4,594,023**	4,754,463
	32,620,626	33,823,807

27 PROPOSED DIVIDENDS, DIRECTORS' REMUNERATION AND ANNUAL GENERAL MEETING

The Board of Directors of the parent company have proposed neither bonus issue nor cash dividends for the year ended 31 December 2018 (2017: Nil).

No directors' fees of the parent company has been proposed for the year ended 31 December 2018 and 31 December 2017.

The consolidated financial statements of the group for the year ended 31 December 2017 were approved in the annual general assembly of the shareholders of the parent company held on 26 April 2018; no dividends have been declared.

28 COMMITMENTS AND CONTINGENCIES

The group has commitments in respect of future capital expenditure amounting to KD 162,086 (2017: KD 235,415) relating to ongoing projects under construction.

At 31 December 2018, the group's bankers have provided bank guarantees, amounting to KD 622,824 (2017: KD 511,674) from which it is anticipated that no material liabilities will arise.

The group manages a number of assets. These assets have no recourse to the general assets of the group and the group has no recourse to the assets under management. Accordingly, assets under management are not included in the consolidated financial statements. As at 31 December 2018, assets under management amounted to KD 51,797,253 (2017: KD 57,316,230).

29 RELATED PARTY DISCLOSURES

These represent transactions with certain related parties (major shareholders, directors and executive officers of the group, close members of their families and entities of which they are principal owners or over which they are able to exercise significant influence) entered into by the group in the ordinary course of business. Pricing policies and terms of these transactions are approved by the group's management.

Transactions and balances with related parties included in the consolidated financial statements are as follows:

	Associates	Major shareholders	Other related parties	Total 2018	Total 2017
	KD	KD	KD	KD	KD
Finance costs	47,146	2,568,125	-	**2,615,271**	2,757,439
Advisory and management fees	-	-	-	-	252,057

	Associates	Major shareholders	Other related parties	Total 2018	Total 2017
	KD	KD	KD	KD	KD
Cash and cash equivalents	-	924,000	-	**924,000**	2,225,672
Amounts due from related parties (Note 17)	1,947,514	-	-	**1,947,514**	63,724
Islamic finance payables	1,006,398	50,625,193	-	**51,631,591**	56,160,874
Amounts due to related parties (Note 26)	88,263	-	-	**88,263**	103,079
Loans to key management personnel	-	-	32,000	**32,000**	34,500

Amounts due to/due from related parties do not carry any profit and are payable/receivable on demand.

29 RELATED PARTY DISCLOSURES (continued)

Key management compensation:

	2018 KD	2017 KD
Salaries and other short term benefits	**1,117,891**	1,236,939
Employees end of service benefits	**155,739**	182,051
	1,273,630	1,418,990

With respect to amounts due from related parties, the group has assessed its related parties to have low credit risk based on its strong liquidity position to meet its contractual cash flow obligations in the near term. Accordingly, the group does not expect to incur any significant credit losses on the amounts due from its related parties.

30 SEGMENT INFORMATION

For management purposes, the group is organised into four major business segments. The principal activities and services under these segments are as follows:

- Islamic finance: Providing a range of Islamic products to corporate and individual customers;
- Leasing Sector: Leasing of vehicle and equipment to corporate and individual customers and investments with similar or related operations;
- Real estate and asset management: Buying, selling, and investing in real estate and managing funds and portfolios;
- Proprietary investment management: Operations of group's subsidaires and associates (excluding leasing related subsidiaires and associates).

30 SEGMENT INFORMATION (continued)

	Islamic finance	Leasing sector	Real estate and assets management	Proprietary investment management	Others	Total
	KD	KD	KD	KD	KD	KD
At 31 December 2018						
Assets	7,170	81,516,682	50,605,354	157,662,779	17,263,834	307,055,819
Liabilities	698,436	64,592,075	27,147,333	83,278,820	10,553,691	186,270,355
Goodwill	-	945,874	-	91,005	-	1,036,879
Year ended 31 December 2018						
Income	35,680	11,350,019	3,825,640	14,668,809	339,939	30,220,087
Profit/(loss) for the year	(136,556)	(2,143,623)	5,155,453	3,344,427	273,130	6,492,831
Depreciation	-	(9,958,488)	(31,029)	(89,427)	-	(10,078,944)
Amortisation of leasehold property	-	-	(1,331,761)	-	-	(1,331,761)
Net impairment losses	123,488	(5,639,605)	(516,214)	(200,315)	-	(6,232,646)
Share of results of associates	-	1,033,771	-	(968,436)	-	65,335
Other						
Capital expenditure	-	19,831,412	-	-	686,812	20,518,224
Investment in associates	-	12,816,191	-	31,192,078	-	44,008,269

30 SEGMENT INFORMATION (continued)

	Islamic finance	Leasing sector	Real estate and assets management	Proprietary investment management	Others	Total
	KD	KD	KD	KD	KD	KD
At 31 December 2017						
Assets	49,862	85,822,530	63,794,155	146,176,549	16,996,725	312,839,821
Liabilities	3,402,399	67,208,874	17,778,208	96,501,246	10,511,827	195,402,554
Goodwill	-	945,874	-	91,005	-	1,036,879
Year ended 31 December 2017						
Income	102,566	11,006,438	1,478,066	3,738,730	189,242	16,515,042
Loss/(profit) for the year	1,164,842	3,026,583	(1,913,423)	(4,698,521)	(6,669)	(2,427,188)
Depreciation	-	(9,122,694)	(27,886)	(247,675)	-	(9,398,255)
Amortisation of leasehold property	-	-	(1,215,004)	-	-	(1,215,004)
Net impairment losses	1,458,267	(759,689)	(1,278,017)	(1,188,694)	-	(1,768,133)
Share of results of associates	-	1,107,972	-	(7,407,996)	-	(6,300,024)
Other						
Capital expenditure	-	22,990,992	7,404	534,439	5,621	23,538,456
Investment in associates	-	13,030,520	-	35,497,478	-	48,527,998

The majority of the group's assets and operation are located in the State of Kuwait.

31 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the group's achieving profitability and each individual within the group is accountable for the risk exposures relating to his or her responsibilities. The group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into profit rate risk, foreign currency risk and equity price risk. It is also subject to operating risks. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the group's strategic planning process.

The Board of Directors of the parent company is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

31.1 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group's credit policy and exposure to credit risk is monitored on an ongoing basis.

The group has policies and procedures in place to limit the amount of credit exposure to any counterparty. These procedures include the non-concentration of credit risk.

The group is exposed to credit risk on its trade and other receivables, bank balances, Islamic finance receivables and amounts due from related parties.

Assessment of expected credit losses

Bank balances

The credit risk on bank balances is considered negligible, since the counterparties are reputable banks and financial institutions. The group does not determine ECL on bank balnaces as these are considered to be low risk and the group does not expect to incur any credit losses on these instruments.

Trade and other receivables

The group generally trades only with recognized and creditworthy counterparties. The group has policies and procedures in place to limit the amount of credit exposure to any counter party. The group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

With respect to trade accounts receivable, an impairment analysis is performed at each reporting date using a provision matrix to measure the expected credit losses. The provision rates are based on days past due and customer segments with similar loss patterns (i.e., product and customer type etc). The calculation reflects the reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade accounts receivable are written-off if past due more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each trade accounts receivable. The group does not have a policy to obtain collaterals against trade accounts receivable.

The table below provides information about the credit risk exposure on the group's trade accounts receivable using a provision matrix:

	Trade receivables			
31 December 2018	Days past due			
	0-90 days	91-180 days	Over 180 days	Total
	KD	KD	KD	KD
Estimated total gross carrying amount at default	3,589,260	1,374,740	12,245,843	17,209,843
Estimated credit loss	1,703,869	703,925	10,002,883	12,410,677
Expected credit loss rate	47%	51%	82%	72%

31 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

31.1 CREDIT RISK (continued)

Assessment of expected credit losses (continued)

Trade and other receivables (continued)

	Trade receivables			
1 January 2018	Days past due			
	0-90 days	91-180 days	Over 180 days	Total
	KD	KD	KD	KD
Estimated total gross carrying amount at default	4,580,868	1,290,858	10,103,532	15,975,258
Estimated credit loss	1,544,483	257,180	6,791,743	8,593,406
Expected credit loss rate	34%	20%	67%	54%

The group does not determine ECL as staff receivables and refundable deposits as these are considered to be low risk and the group does not expect to incur any credit losses on these instruments.

Islamic finance receivables

Definition of default
The group considers Islamic finance receivables 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:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as default or past due event; or
- 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
- Borrower is deceased

The group considers a financial asset as 'cured' (i.e. no longer be in default) and therefore reclassified out of stage 3 when it no longer meets any of the default criteria. In respect of restructured facilities which are classified in stage 3, these would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year, or as determined by the group for consideration for classifying the facility in stage 2/stage 1.

31 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

31.1 CREDIT RISK (continued)

Assessment of expected credit losses (continued)

Islamic finance receivables (continued)

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 months ECL or life time ECL, the group assess as whether there has been a significant increase in credit risk since 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. In addition to the above quantitative criteria, the group applies qualitative criteria for the assessment of significant increase in credit risk based on monitoring of certain early warning signals.

Measurement of ECLs
ECLs are probability-weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents 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 assumptions, nature and value of collaterals, forward-looking macro-economic scenarios, etc.

The group calculates ECL on credit facilities classified in stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying applicable haircuts.

PD estimation process
The probability of default (PD) is the likelihood that an obligor will default on its obligations in the future. IFRS 9 requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the group's estimate of the future asset quality. The group utilises the internal credit standing of its Islamic financing customers and other measures and techniques which seek to take account of all asects of perceived risk in estimating the PD for IFRS 9. Furthermore, the group also considers CBK's requirements on flooring of PD for credit facilities.

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 EAD based on CBK's guidelines on credit conversion factors to be applied on utilized portions for cash facilities.

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 CBK's guidelines on eligible collaterals with prescribed haircuts for determining LGD.

Amounts due from related parties

Definition of default
The group considers amounts due from related parties to be in default and therefore in stage 3 (credit impaired) for ECL calculations when:

- The counter party is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realisation of due amounts from sale of assets or assignment to cash flows etc;
- The counter party is considered as credit impaired based on qualitative assessment by the management;
- For the balances due on demand, the counter party does not have current ability to fulfil the full repayment immediately.

The group considers amounts due from related parties as 'cured' (i.e. no longer be in default) and therefore reclassified out of stage 3 when it no longer meets any of the default criteria. These financial instruments are required to complete a moratorium period of at least one year (from the day these do not meet the criteria of default) before these are cured into stage 2 or stage 1 accordingly.

Significant increase in credit risk
The group monitors the amounts due from related parties subject to ECLs in order to determine whether these are subject to 12 months ECL or life time ECL. This is based on group's assessment whether there has been a significant increase in credit risk since initial recognition of these instruments. With respect to amounts due from related parties that are receivable on demand, the group monitors the financial condition of the counter parties primarily focusing on the available liquid assets that could be utilised in repayment of these outstanding amounts. In case the counter party does not have adequate liquid resources, the group assumes there has been a significant increase in credit risk with respect to these counter parties and accordingly, these are migrated to stage 2.

31 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

31.1 CREDIT RISK (continued)

Assessment of expected credit losses (continued)

Amounts due from related parties (continued)

Measurement of ECLs
ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at an appropriate discount rate relevant for amounts due from related parties. Cash shortfall represents the difference between cash flows due to the group and the cash flows that are expected to be received. With respect to amounts due from related parties that are due on demand, the group does not expect the impact of discounting the future cash flow shortfalls to be material as these are expected to be settled in a short period of time. The group estimates the elements of ECL (i.e. PD, LGD and EAD) using appropriate credit risk assumptions with relevant forward looking adjustments.

The group considers related parties to have low credit risk when the counter party has a strong liquidity position to meet its contractual cash flow obligations in the near term. Accordingly, the group does not expect to incur any significant credit losses on such low credit risk counter parties.

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 adjustments into the determined ECL of its financial assets. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The management reviews these forecasts and estimates on a regular basis.

Maximum exposure to credit risk
The group's policy is to enter in to Islamic finance arrangements only with recognized, creditworthy third parties. The maximum exposure is the gross amount as disclosed in Note 13. In addition, these receivable balances are monitored on an ongoing basis.

With respect to credit risk arising from the other financial assets of the group, which comprise bank balances and certain classes of other assets, the group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Risk concentrations of the maximum exposure to credit risk
Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration indicates the relative sensitivity of the group's performance to developments affecting a particular industry or geographic location.

The maximum credit exposure to any client or counterparty as of 31 December 2018 was KD 96,144 (2017: KD 706,382) before taking account of collateral or other credit enhancements.

The group's Islamic finance receivable is primarily granted to clients located in Kuwait.

The distribution of assets by industry sector was as follows:

	2018	2017
	KD	KD
Banks and financial institutions	**26,565,318**	29,052,627
Construction and real estate	**199,174,814**	193,872,805
Consumer	**44,506,349**	45,289,585
Others	**36,809,338**	44,624,804
	307,055,819	312,839,821

31 RISK MANAGEMENT (continued)

31.1 CREDIT RISK (continued)

Collateral and other credit enhancements

The Islamic finance receivables are primarily secured against the underlying assets like real estate properties, securities and motor vehicles. Additional collaterals may be requested.

The group can liquidate the collateral in case of default by the borrower in accordance with the agreements entered with the borrowers. The group has an obligation to return the collateral on the settlement of the receivable.

Credit quality for class of financial assets

Neither internal credit grading system nor external credit grades are used by the group to manage the credit quality of Islamic finance receivables.

The group manages the credit quality by ensuring that adequate collaterals are available for all the individual facilities granted, which the management reviews on a regular basis.

The group seeks to avoid undue concentrations of risks with individuals or groups of customers in business through diversification of financing and investing activities. The table below summarises the credit quality of islamic finance receivables.

	Neither past due nor impaired	Past due or Impaired	Total
	2018	2018	2018
	KD	KD	KD
Islamic finance receivables:			
Real estate	**87,927**	**-**	**87,927**
Tawarruq	**-**	**7,169**	**7,169**
	87,927	**7,169**	**95,096**

	Neither past due nor impaired	Past due or Impaired	Total
	2017	2017	2017
	KD	KD	KD
Islamic finance receivables:			
Real estate	1,016,264	64,128	1,080,392
Tawarruq	-	49,861	49,861
	1,016,264	113,989	1,130,253

As of 31 December 2018, the group does not have any past due but not impaired Islamic finance receivables.

31 RISK MANAGEMENT (continued)

31.1 CREDIT RISK (continued)

Ageing analysis of past due but not impaired Islamic finance receivables as of 31 December 2017 was as follows:

	Less than 30 days 2017 KD	31 to 60 days 2017 KD	61 to 90 days 2017 KD	Total 2017 KD
Islamic finance receivables				
Real estate	21,936	21,936	20,256	64,128
	21,936	21,936	20,256	64,128

See Note 13 for more detailed information with respect to the allowance for impairment losses on Islamic finance receivables.

31.2 LIQUIDITY RISK

Liquidity risk is the risk that the group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management strive to diversity funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities. However, due to the global, regional and local liquidity and credit deterioration, the group has experienced significant liquitidy concerns.

Analysis of financial assets and liabilities by remaining contractual maturities

The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangement, except for available for sale investments, trading properties, investment properties and investment in associates, which are based on management's estimate of planned exit dates.

The maturity profile of the assets and liabilities at 31 December 2018 was as follows:

	Within 3 months KD	3 to 6 months KD	6 to 12 Months KD	1 to 3 years KD	Over 3 years KD	Total KD
ASSETS						
Cash and cash equivalents	26,282,209	-	-	20,378	-	26,302,587
Islamic finance receivables	23,657	16,486	32,972	21,981	-	95,096
Trading properties	-	-	14,382,872	-	-	14,382,872
Financial assets carried at FVOCI	-	-	-	396,826	-	396,826
Financial assets carried at FVTPL	77,425	-	152,305	1,567,130	633,099	2,429,959
Investment in associates	-	-	111,009	25,494,022	18,403,238	44,008,269
Investment properties	1,048,000	-	-	109,363,577	30,244,276	140,655,853
Other assets	7,220,120	1,640,193	3,155,058	1,002,129	77,034	13,094,534
Property and equipment	8,130,408	3,664,826	6,701,054	23,589,120	17,123,734	59,209,142
Leasehold property	-	-	-		5,443,802	5,443,802
Goodwill	-	-	-	91,005	945,874	1,036,879
TOTAL ASSETS	42,781,819	5,321,505	24,535,270	161,546,168	72,871,057	307,055,819
LIABILITIES						
Islamic finance payables	12,273,626	184,056	7,312,352	133,879,695	-	153,649,729
Other liabilities	7,555,244	3,256,245	8,456,023	10,606,065	2,747,049	32,620,626
TOTAL LIABILITIES	19,828,870	3,440,301	15,768,375	144,485,760	2,747,049	186,270,355
NET	22,952,949	1,881,204	8,766,895	17,060,408	70,124,008	120,785,464

31 RISK MANAGEMENT (continued)

31.2 LIQUIDITY RISK (continued)

The maturity profile of the assets and liabilities at 31 December 2017 was as follows:

	Within 3 months	3 to 6 months	6 to 12 Months	1 to 3 years	Over 3 years	Total
	KD	KD	KD	KD	KD	KD
ASSETS						
Cash and cash equivalents	28,669,589	-	-	20,532	-	28,690,121
Islamic finance receivables	221,061	295,273	161,543	452,376	-	1,130,253
Trading properties	-	754,444	14,960,366	-	-	15,714,810
Available for sale investments	-	20,919	276,987	1,861,755	449,226	2,608,887
Investment in associates	-	-	-	8,605,381	39,922,617	48,527,998
Investment properties	2,400,000	1,036,707	-	77,823,551	47,644,742	128,905,000
Other assets	5,180,866	4,854,748	7,564,249	1,626,823	5,000	19,231,686
Property and equipment	8,335,087	3,784,924	7,123,761	23,868,566	17,106,286	60,218,624
Leasehold property	-	-	-	-	6,775,563	6,775,563
Goodwill	-	-	-	-	1,036,879	1,036,879
TOTAL ASSETS	44,806,603	10,747,015	30,086,906	114,258,984	112,940,313	312,839,821
LIABILITIES						
Islamic finance payables	12,576,929	1,689,764	3,998,352	49,574,569	93,739,133	161,578,747
Other liabilities	5,100,062	4,157,901	9,565,949	12,126,769	2,873,126	33,823,807
TOTAL LIABILITIES	17,676,991	5,847,665	13,564,301	61,701,338	96,612,259	195,402,554
NET	27,129,612	4,899,350	16,522,605	52,557,646	16,328,054	117,437,267

31 RISK MANAGEMENT (continued)

31.2 LIQUIDITY RISK (continued)

The table below shows the contractual expiry by maturity of the group's financial liabilities based on contractual undiscounted payments:

	Less than 3 months KD	3 to 12 months KD	1 to 5 years KD	Total KD
2018				
Islamic finance payables	**13,215,848**	**7,703,338**	**134,589,256**	**155,508,442**
Other liabilities	**5,730,276**	**11,492,410**	**13,337,642**	**30,560,328**
	18,946,124	**19,195,748**	**147,926,898**	**186,068,770**
2017				
Islamic finance payables	14,055,650	5,859,447	143,450,513	163,365,610
Other liabilities	2,675,667	13,505,096	14,729,123	30,909,886
	16,731,317	19,364,543	158,179,636	194,275,496

Contractual maturities disclosed in table above for Islamic finance payable include finance costs payable by the parent company, amounting to KD 1,944,997 on restructured Islamic finance payable up to the date of expiry of current deal on 29 March 2019.

The table below shows the contractual expiry by maturity of the group's contingent liabilities and commitments:

	Less than 3 months KD	3 to 12 months KD	1 to 5 years KD	Total KD
2018				
Contingent liabilities	**324,662**	**182,388**	**115,774**	**622,824**
Commitments	**81,325**	**80,761**	**-**	**162,086**
	405,987	**263,149**	**115,774**	**784,910**
2017				
Contingent liabilities	28,463	176,693	32,259	237,415
Commitments	198,407	6,758	-	205,165
	226,870	183,451	32,259	442,580

The group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

31 RISK MANAGEMENT (continued)

31.3 MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices. Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the group's investment portfolio. The exposure to equity price risk is not significant as financial assets carried at FVOCI and FVTPL investments mainly comprises of unquoted equity securities and funds, where the group does not hold any material positions.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments. The group believes it is not exposed to profit rate risk as its Islamic financing instruments are fixed rate instruments.

Currency risk

Currency risk is managed by the treasury department of the parent company on the basis of limits determined by the parent company's Board of Directors and a continuous assessment of the group's open positions and current and expected exchange rate movements. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the group does not hedge foreign currency exposures.

The group has a net US dollars liability exposure at 31 December 2018 equivalent to KD 30,763,891 (2017: KD 34,642,563).

The effect on loss (due to change in the fair value of monetary assets and liabilities), as a result of change in currency rate, with all other variables held constant is shown below:

	2018		2017	
Currency	**Change in currency rate in %**	**Effect on loss KD**	Change in currency rate in %	Effect on loss KD
US Dollars	+1	373,226	+1	307,639

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

32 CAPITAL MANAGEMENT

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and financial position of the group.

The group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The group includes within net debt, islamic finance payables and other liabilities less cash and bank balances. Capital includes equity attributable to the equity holders of the parent company.

	2018 KD	2017 KD
Islamic finance payables	**153,649,729**	161,578,747
Other liabilities	**30,560,328**	30,909,886
Less: Cash and cash equivalents	**(26,302,587)**	(28,690,121)
Net debt	**157,907,470**	163,798,512
Equity attributable to the equity holders of the parent company	**81,839,096**	78,169,165
Capital and net debt	**239,746,566**	241,967,677
Gearing ratio	**66%**	68%

33 FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date.

Fair value hierarchy
The group uses the following hierarchy for determining and disclosing the fair values of its assets and liabilities by valuation technique:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table shows an analysis of the assets measured at fair value by level of the fair value hierarchy:

	Level: 1	Level: 2	Level: 3	Total fair value
31 December 2018	KD	KD	KD	KD
Financial assets measured at fair value:				
Financial assets at FVOCI	58,126	-	338,700	**396,826**
Financial assets at FVTPL	286,082	752,550	1,391,327	**2,429,959**
Investment properties:				
Investment properties	-	140,655,853	-	**140,655,853**
Property and equipment:				
Land	-	10,946,000	-	**10,946,000**
	344,208	**152,354,403**	**1,730,027**	**154,428,638**

	Level: 1	Level: 2	Level: 3	Total fair value
31 December 2017	KD	KD	KD	KD
Available-for-sale investments:				
Quoted equity investments	466,329	-	-	466,329
Real estate funds and portfolios	-	802,715	-	802,715
Investment properties:				
Investment properties	-	128,905,000	-	128,905,000
Property and equipment:				
Land	-	10,962,000	-	10,962,000
	466,329	140,669,715	-	141,136,044

33 FAIR VALUE MEASUREMENT (continued)

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets:

	At 1 January 2018	IFRS 9 transition adjustment	FV gain recorded in the consolidated statement of profit or loss	Transfers during the period	At 31 December 2018
	KD	KD	KD	KD	KD
Financial assets at FVOCI	338,700	-	-	-	338,700
Financial assets at FVTPL	1,001,143	133,755	(49,824)	306,253	1,391,327
	1,339,843	**133,755**	**(49,824)**	**306,253**	**1,730,027**

At 31 December 2017, certain securities amounting to KD 1,339,843, that do not have a quoted price in an active market and whose fair value cannot be measured reliably were accounted at cost (in accordance with IAS 39).

Fair value of other financial instruments is not materially different from their carrying values, at the reporting date, as most of these instruments are of short term maturity or re-priced immediately based on market movement in profit rates.

For assets classified as level 3, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; or other valuation models. The group has also performed a sensitivity analysis by varying these input factors by 5%. Based on such analysis, no significant changes in fair values were noted.

No transfers have been made between the levels of the fair value hierarchy during the current year.