

**Osoul Investment Company – K.S.C.P
And its Subsidiaries
State of Kuwait**



**Consolidated Financial Statements and Independent Auditor's Report
For the year ended 31 December 2018**

Contents

Page

| | |
|--|--------|
| Independent Auditor's Report | 1 - 3 |
| Consolidated Statement of Financial Position | 4 |
| Consolidated Statement of Profit or loss | 5 |
| Consolidated Statement of Comprehensive Income | 6 |
| Consolidated Statement of Changes in Equity | 7 |
| Consolidated Statement of Cash Flows | 8 |
| Notes to the Consolidated Financial Statements | 9 - 38 |

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

**Osoul Investment Company K.S.C.P
State of Kuwait**

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Osoul Investment Company K.S.C.P. (the Parent Company) and its subsidiaries, (together referred to as "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 changes in equity and consolidated statement of cash flows 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 in 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.

Emphasis of Matter

We draw attention to note 30.4 of the financial statements, which describes the uncertainty related to the outcome of a deemed basis tax assessment against the Group.

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 period. 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. The following is the key audit matter identified and how we addressed them in our audit.

Net realisable value of properties held for trading

The Group's investment in properties held for trading, comprise residential buildings located in Boston, United States of America and Jordan and these properties represents 10.3% of Group's total assets as disclosed in notes 8 to the consolidated financial statements. These properties are stated at the lower of cost and net realisable value. An assessment of the net realisable value of properties is carried out at each balance sheet date based on market value of each property. In determining the market value properties, the Group relies on a number of different assumptions.

The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material change, warrants specific audit focus in this area. The valuation of these properties is inherently subjective due to, among other factors, the individual nature of each property and its location etc. The valuations are carried out by independent third party valuers appointed by the Group management, licensed from the relevant regulatory bodies at respective locations. In determining a property's valuation the valuers take into account property specific current information such as comparable market transactions.

We used internal valuation specialists to review valuation methodologies used and to challenge the key assumptions including the inputs used to evaluate the real estate properties, by comparing these against industry benchmarks and our understanding of the property market in respective location. We also assessed the competence and capabilities of valuers and tested the data inputs underpinning the property valuations.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (CONTINUED)

Osoul Investment Company K.S.C.P
State of Kuwait

Other Information

Management is responsible for the other information. The other information comprises all information included in the annual report other than the consolidated financial statements and our auditor's report thereon. We obtained the Board of Directors' report prior to the date of auditor's report. We expect to receive the Parent Company's annual report of 2018, after the date of the auditors' report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 in 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 skepticism 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (CONTINUED)

Osoul Investment Company K.S.C.P State of Kuwait

- 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 period 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 Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained the information that we deemed necessary 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 and its Executive regulations, 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 and its Executive regulations or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the financial year ended 31 December 2018, that might have had a material effect on the business of the Group or on its consolidated financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations 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 Group or on its consolidated financial position.



Talal Y. Al-Muzaini
License No. 209A
Deloitte & Touche
Al-Wazzan & Co.

Kuwait
26 March 2019

Consolidated Statement of Financial Position as at 31 December 2018

| | Notes | Kuwaiti Dinars | |
|--|-------|-------------------|-------------------|
| | | 2018 | 2017 |
| ASSETS | | | |
| Cash and cash equivalents | 4 | 1,448,963 | 1,822,519 |
| Investments in Murabaha, Wakala and deposits at financial institutions | 5 | 1,250,000 | 500,000 |
| Investments at fair value through profit or loss | 6 | 2,278,997 | 218,221 |
| Other receivables | 7 | 197,806 | 219,612 |
| Properties held for trading | 8 | 2,257,775 | 3,720,915 |
| Investment in associates | 9 | 3,289,170 | 2,779,960 |
| Available for sale investments | 10 | - | 5,173,675 |
| Investment at Fair value through other comprehensive income | 11 | 3,510,495 | - |
| Investment properties | 12 | 6,950,000 | 7,070,000 |
| Intangible assets | 13 | 711,857 | 773,721 |
| Other Assets | | 9,202 | 13,520 |
| Total assets | | 21,904,265 | 22,292,143 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Payables | 14 | 586,185 | 579,518 |
| End of service indemnity | 15 | 386,740 | 369,866 |
| Total liabilities | | 972,925 | 949,384 |
| Equity | | | |
| Share capital | 16 | 18,870,504 | 18,870,504 |
| Treasury shares | 17 | (775,510) | (2,663) |
| Statutory reserve | 18 | 274,181 | 202,529 |
| Foreign currency translation reserve | | 13,314 | (11,470) |
| Change in fair value reserve | | 1,433,307 | 776,711 |
| Retained earnings | | 1,115,544 | 1,507,148 |
| Total equity | | 20,931,340 | 21,342,759 |
| Total liabilities and equity | | 21,904,265 | 22,292,143 |

The attached notes on pages 9 to 38 form an integral part of these consolidated financial statements.



Abdulla Musaed AL-Dakheel
Chairman




Sulaiman Ahmed Al-Ameeri
Vice Chairman

Consolidated Statement of profit or loss for the year ended 31 December 2018

| | Notes | Kuwaiti Dinars | |
|--|-------|------------------|------------------|
| | | 2018 | 2017 |
| Revenues | | | |
| Net gain from investments | 19 | 493,967 | 430,582 |
| Net gain from investment properties | 20 | 418,739 | 352,322 |
| Gain from properties held for trading | 21 | 48,196 | 18,001 |
| Net Revenue from intangible assets | 22 | 37,428 | 40,717 |
| Portfolio and funds management fees | | 52,819 | 54,976 |
| Profit from Murabaha and deposits at financial institutions | | 11,203 | 33,743 |
| Share of results from associates | | 304,215 | 79,589 |
| Recycled from fair value reserve | | - | 677,714 |
| Other income | 23 | 280,445 | 166,074 |
| Reversal of provision | | 20,524 | 175,385 |
| | | <u>1,667,536</u> | <u>2,029,103</u> |
| Expenses and other charges | | | |
| Staff costs | | (617,633) | (610,812) |
| Other expenses | 24 | (333,380) | (378,430) |
| | | <u>(951,013)</u> | <u>(989,242)</u> |
| Net profit for the year before contributions | | 716,523 | 1,039,861 |
| Provision for contribution to KFAS | | (3,407) | (8,563) |
| Provision for NLST | | (7,686) | (12,765) |
| Provision for Zakat | | (2,764) | (5,106) |
| Net Profit for the year | | <u>702,666</u> | <u>1,013,427</u> |
| Earnings per share attributable to shareholders of Parent Company(fils) | 25 | <u>3.88</u> | <u>5.37</u> |

The attached notes on pages 9 to 38 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2018

| | Kuwaiti Dinars | |
|---|-------------------------|-----------------------|
| | 2018 | 2017 |
| Net Profit for the year | 702,666 | 1,013,427 |
| Other comprehensive income items: | | |
| <i>Items that will not be reclassified subsequently to profit or loss:</i> | | |
| <i>Investment at fair value through other comprehensive income:</i> | | |
| Change in fair value | 718,939 | - |
| <i>Investment in associates</i> | | |
| Group's share in other comprehensive income of associate | 26,544 | - |
| | <u>745,483</u> | <u>-</u> |
| <i>Items that may be reclassified subsequently to statement of income:</i> | | |
| <i>Available for sale investments:</i> | | |
| Change in fair value | - | (693,196) |
| Transferred to statement of income on impairment | - | 148,088 |
| Transferred to statement of income on disposal | - | (82,554) |
| | <u>-</u> | <u>(627,662)</u> |
| <i>Foreign currency translation:</i> | | |
| Exchange differences on translation of foreign operations | 28,034 | (74,600) |
| <i>Investment in associates</i> | | |
| Group's share in other comprehensive income items of associates | (3,250) | (887) |
| | <u>24,784</u> | <u>(75,487)</u> |
| Total Other comprehensive income for the year | <u>770,267</u> | <u>(703,149)</u> |
| Total comprehensive income for the year | <u>1,472,933</u> | <u>310,278</u> |

The attached notes on pages 9 to 38 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2018

Kuwaiti Dinars

Equity attributable to the shareholders of the Parent Company

| | Share capital | Treasury shares | Statutory reserve | Foreign currency translation reserve | Change in fair value reserve | Retained earnings | Total |
|---|-------------------|------------------|-------------------|--------------------------------------|------------------------------|-------------------|-------------------|
| Balance at 1 January 2017 | 18,870,504 | (2,663) | 98,543 | 64,017 | 1,404,373 | 597,707 | 21,032,481 |
| Net Profit for the year | - | - | - | - | - | 1,013,427 | 1,013,427 |
| Other comprehensive income | - | - | - | (75,487) | (627,662) | - | (703,149) |
| Total comprehensive income for the year | - | - | - | (75,487) | (627,662) | 1,013,427 | 310,278 |
| Transfer to reserves | - | - | 103,986 | - | - | (103,986) | - |
| Balance at 31 December 2017 | <u>18,870,504</u> | <u>(2,663)</u> | <u>202,529</u> | <u>(11,470)</u> | <u>776,711</u> | <u>1,507,148</u> | <u>21,342,759</u> |
| Balance at 1 January 2018 | 18,870,504 | (2,663) | 202,529 | (11,470) | 776,711 | 1,507,148 | 21,342,759 |
| Impact of adopting IFRS 9 on 1 January 2018 (Refer note to 2.2) | - | - | - | - | 5,633 | (5,633) | - |
| Balance at 1 January 2018 as restated | 18,870,504 | (2,663) | 202,529 | (11,470) | 782,344 | 1,501,515 | 21,342,759 |
| Net Profit for the year | - | - | - | - | - | 702,666 | 702,666 |
| Purchase of treasury shares | - | (772,847) | - | - | - | - | (772,847) |
| Other comprehensive income | - | - | - | 24,784 | 745,483 | - | 770,267 |
| Total comprehensive income for the year | - | (772,847) | - | 24,784 | 745,483 | 702,666 | 700,086 |
| Dividend paid | - | - | - | - | - | (1,111,505) | (1,111,505) |
| Transfer to retained earnings on disposal of FVOCI Investment | - | - | - | - | (94,520) | 94,520 | - |
| Transfer to statutory reserves | - | - | 71,652 | - | - | (71,652) | - |
| Balance at 31 December 2018 | <u>18,870,504</u> | <u>(775,510)</u> | <u>274,181</u> | <u>13,314</u> | <u>1,433,307</u> | <u>1,115,544</u> | <u>20,931,340</u> |

The attached notes on pages 9 to 38 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the year ended 31 December 2018

| | Notes | Kuwaiti Dinars | |
|--|-------|--------------------|------------------|
| | | 2018 | 2017 |
| Cash flows from operating activities | | | |
| Net Profit for the year | | 702,666 | 1,013,427 |
| <i>Adjustments for:</i> | | | |
| Net unrealised loss/(gain) from investments | 19 | 10,668 | (7,080) |
| Gain on acquisition of additional shares of associate | 23 | (108,098) | (55,771) |
| Reversal of advance received from customer | 23 | (94,401) | - |
| Impairment of AFS investment | 19 | - | 148,088 |
| Dividend income | 19 | (249,803) | (445,651) |
| Change in fair value of investment properties | 20 | 120,000 | 130,000 |
| Share of results from associates | | (304,215) | (79,589) |
| Recycled from fair value reserves on de- recognition of AFS | | - | (677,714) |
| Depreciation and amortization | | 68,828 | 66,528 |
| Reversal of provision | | (20,524) | (175,385) |
| End of service indemnity | 15 | 65,474 | 48,669 |
| <i>Operating cash flow before changes in working capital</i> | | <u>190,595</u> | <u>(34,478)</u> |
| <i>Movements in working capital:</i> | | | |
| Investments at fair value through profit or loss | | (1,146,835) | 553,993 |
| Other receivables | | 42,331 | (26,469) |
| Properties held for trading | | 1,491,173 | 115,333 |
| Payables | | 101,068 | 51,226 |
| Paid for end of service indemnity | 15 | (48,600) | (14,285) |
| Net cash generated from operating activities | | <u>629,732</u> | <u>645,320</u> |
| Cash flows from investing activities | | | |
| Paid for acquisition of available for sale investments | | - | (4,390,150) |
| Proceeds from disposal of available for sale investments | | - | 1,845,317 |
| Paid for acquisition of Investments at fair value through other comprehensive income | | (993,697) | - |
| Proceeds from sale of Investments at fair value through other comprehensive income | | 2,443,842 | - |
| Dividend received from associate | | 237,976 | - |
| Paid for acquisition of investment in associates | 9 | (304,215) | (3,775) |
| Paid for acquisition of other assets | | (2,645) | (8,559) |
| Cash dividends received | 19 | 249,803 | 445,651 |
| Murabaha, Wakala and deposits placed at financial institutions | 5 | (750,000) | 2,750,000 |
| Net cash generated from investing activities | | <u>881,064</u> | <u>638,484</u> |
| Cash flows from financing activities | | | |
| Paid for purchase of treasury shares | | (772,847) | - |
| Dividend paid | | (1,111,505) | - |
| Net cash used in financing activities | | <u>(1,884,352)</u> | <u>-</u> |
| Net change in cash and cash equivalents | | (373,556) | 1,283,804 |
| Cash and cash equivalents at the beginning of the year | | <u>1,822,519</u> | <u>538,715</u> |
| Cash and cash equivalents at the end of the year | 4 | <u>1,448,963</u> | <u>1,822,519</u> |

The attached notes on pages 9 to 38 form an integral part of these consolidated financial statements.

1. Incorporation of the Group

Osoul Investment Company K.S.C.P ("the Parent Company") is a Shareholding Company incorporated in Kuwait in 1999 and is listed on the Kuwait Stock Exchange. Osoul Investment Company is regulated by the Central Bank of Kuwait (CBK) and Capital Market Authority (CMA).

The registered office of the company is at Al-Raya complex – Sharq, 27th floor P.O. Box 3880, Safat 13039.

The consolidated financial statements, include the financial statements of the Parent Company and its subsidiaries (referred together as "Group") as mentioned in (note 28).

The Parent Company is undertaking its activities in accordance with Nobel Islamic Shariaa principles.

The main activities of the Parent Company are:

- Investment in real estate, industrial, agricultural and economic sectors by incorporating specialized companies or purchase of the securities in different sectors
- Manage the funds of public and private institutions and invest such funds in various economic sectors including management of financial and real estate portfolio.
- Providing and preparing the technical, economic and advisory services, as well as studying the projects related to investment and preparing the necessary studies for companies and firms (provided that the necessary conditions should be met).
- Finance Brokerage and carrying out underwriters/lead managers tasks for bonds issues manager, which are issued by companies and investment trustees' functions.
- Finance and Brokerage of the international and local trading operations.
- Providing finance for others taking into account the financial soundness principles set by the CBK in accordance with Islamic Sharia Laws.
- Purchasing and development of real estate properties for sale in its original form, or renting it to governmental, local and international establishments.
- Purchasing, and selling securities and bonds of companies and government authorities inside and outside Kuwait.
- Dealing and trading in the foreign exchange market and precious metals market inside and outside Kuwait for the Parent company's benefit only.
- Establishment and management of investment funds of all types as per the Law.
- Mobilize the resources for financing under leasing "Ijara" and arrange pooled funding operations for leasing, particularly for small and medium firms. The Parent company is not permitted to accept deposits.
- Owning industrial property rights, patents, commercial and industrial trademarks, commercial designs, literary and intellectual property rights related to programs and writings or utilize and rent thereof to other entities.
- Establishing investment funds for its own account or third parties, offering its units, performing the job of a custodian or an investment manager of investment funds inside and outside Kuwait as per applicable laws and regulations, or management of international portfolios as well as investment in leasing transactions for its own account or third parties as per rules and regulations applicable in the State of Kuwait.

The Parent Company may carry out the above business in the state of Kuwait or outside by itself or through agency. Also, the Parent Company may have an interest or be involved in any other way with the entities that are engaged in similar activities or that may assist the Parent Company in achieving its objectives in Kuwait and abroad. The Parent Company may also buy these entities or merge with them.

These consolidated financial statements were authorized for issue by the Board of Directors on 26 March 2019 and are subject to the approval of the Annual General Assembly of the shareholders.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) as adopted for use in the State of Kuwait for financial institution regulated by the Central Bank of Kuwait ("CBK"). CBK regulations require expected credit loss ("ECL") on credit facilities 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 instruction; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared based on the historical cost basis except for investment properties and financial instruments that are measured at fair values, as explained in the accounting policies below.

2.2 New and revised IFRSs issued and effective

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives.

Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures.

IFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets, and
- 3) General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 January 2018 have not been restated.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

The management of the Parent Company reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the impact as disclosed in note (d), on the Group's financial assets as regards their classification and measurement.

(b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on financial assets.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for other receivables.

The result of the assessment is as follows:

The Group has applied simplified approach to impairment for other receivables as required or permitted under the standard. The measurement of receivables under IFRS 9 did not have a material impact on the consolidated statement of profit or loss of the Group.

The Group's balances with banks are low risk and are considered to be fully recoverable and hence measurement of bank balances under IFRS 9 did not have a material impact on the consolidated statement of profit or loss of the Group.

The consequential amendments to IFRS 7 have resulted in more extensive disclosures about the Group's exposure to credit risk in the consolidated financial statements.

(c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised.

Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

The Group does not have any financial liabilities designated as at FVTPL, hence the application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

(d) Disclosures in relation to the initial application of IFRS 9

The table below shows information relating to financial assets that have been reclassified as a result of transition to IFRS 9.

| | Classification under IAS 39 | Classification under IFRS 9 | Carrying amount under IAS 39 | Re-measurement | Reclassification | Carrying amount under IFRS 9 |
|--|------------------------------------|------------------------------------|-------------------------------------|-----------------------|-------------------------|-------------------------------------|
| | | | KD | | KD | KD |
| Financial assets | | | | | | |
| Cash and cash equivalents | Loans and receivable | Amortised cost | 1,822,519 | - | - | 1,822,519 |
| Investments in Murabaha, Wakala and deposits at financial institutions | Loans and receivable | Amortised cost | 500,000 | - | - | 500,000 |
| Investments – Equity Securities | AFS | FVOCI | 4,249,061 | - | - | 4,249,061 |
| Investments – Equity Securities | AFS | FVTPL | 924,614 | - | - | 924,614 |
| Investment – Equity Securities | FVTPL | FVTPL | 218,221 | - | - | 218,221 |
| Other receivables | Loans and receivable | Amortised cost | 219,612 | - | - | 219,612 |

The following table analyses the impact of transition to IFRS 9 on reserves and retained earnings.

| | Retained earnings | Fair value reserve |
|---|--------------------------|---------------------------|
| | KD | KD |
| Closing balance under IAS 39 as at 31 December 2017 | 1,507,148 | 776,711 |
| Impact on reclassification: | | |
| Investment securities (equity) from available-for-sale to FVTPL | (5,633) | 5,633 |
| Opening balance under IFRS 9 on the date of initial application of 1 January 2018 | 1,501,515 | 782,344 |

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

The Group recognises revenue from investment properties which represent rental income from residential properties, income from intangible assets and management fee income. The Group has reassessed its revenue recognition policy and has concluded that it will continue to recognize revenue at point in time, when services are rendered. Hence, the implementation of IFRS 15 on 1 January 2018 did not have any material impact on the Group's consolidated financial statement. The Group's accounting policies for its revenue streams are disclosed in detail in note 2.16 below.

IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions

The Group does not have any share-based payment schemes hence the amendment to the standard did not have any impact on the financial position and/or financial performance of the Group.

IAS 40 (amendments) Transfers of Investment Property

The Group has adopted the amendments to IAS 40 Investment Property for the first time in the current year. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

Annual Improvements to IFRS Standards 2014 – 2016 Cycle

Amendments to IAS 28 Investments in Associates and Joint Ventures

The Group has adopted the amendments to IAS 28 included in the Annual Improvements to IFRS Standards 2014–2016 Cycle for the first time in the current year. The amendments clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition.

In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

2.3 New and revised IFRS in issue but not yet effective

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

| New and revised IFRSs | Effective for annual periods beginning on or after |
|--|---|
| Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23. | 1 January 2019 |
| IFRIC 23 <i>Uncertainty over Income Tax Treatments</i> | 1 January 2019 |

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

New and revised IFRSs

**Effective for annual periods
beginning on or after**

IFRS 16 Leases

1 January 2019

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact assessment of IFRS 16 Leases

The Group is in the process of assessing the impact of new requirement of IFRS 16 to recognize a right-of-use, on the financial statements of the Group.

Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

1 January 2019

Amendments to IFRS 10 *Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

Effective date deferred indefinitely. Adoption is still permitted.

IFRS 17 Insurance Contracts

1 January 2021

The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

1 January 2019

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*

1 January 2019

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

IAS 12 *Income Taxes*

1 January 2019

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| IAS 23 <i>Borrowing Costs</i> | 1 January 2019 |
| <p>The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.</p> | |
| IFRS 3 <i>Business Combinations</i> | 1 January 2019 |
| <p>The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.</p> | |
| IFRS 11 <i>Joint Arrangements</i> | 1 January 2019 |
| <p>The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.</p> | |
| Amendments to IAS 19 <i>Employee Benefits Plan Amendment, Curtailment or Settlement</i> | 1 January 2019 |
| <p>The management of the Parent Company do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.</p> | |

2.4 Basis of Consolidation

Subsidiaries

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

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Parent Company and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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

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

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9: Financial Instruments, when applicable or the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

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

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

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

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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

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

2.5 Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

The contribution to KFAS is calculated at 1% of taxable profit of the Group in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

National Labour Support Tax (NLST)

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the group after deducting directors' fees for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

Zakat

Contribution to Zakat is calculated at 1% of the profit of the group in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

2.6 Financial instruments

Policy applicable after 1 Jan 2018

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

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

Financial assets

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

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

Classification and Measurement of Financial assets

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective and in order to generate contractual cash flows. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on a number of observable factors such as:

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

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

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money, credit risk associated with the principal and other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

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

- Financial assets carried at amortised cost
- Financial assets carried at fair value through profit or loss (FVTPL)
- Financial assets carried at fair value through other comprehensive income (FVOCI)

Financial assets carried at Amortised cost:

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

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

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, 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 the consolidated statement of profit or loss.

The Group's financial assets at amortised cost comprise of the followings:

- *Investments in Murabaha, Wakala and deposits at financial institutions*

Investments in Murabaha, Wakala and deposits at financial institutions are measured at amortised cost using the effective interest method.

- *Cash and cash equivalents*

Cash and cash equivalents comprise cash and bank balances, together with time deposits that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Other receivables

Other receivables are stated at original invoice amount less allowance for any uncollectible amounts.

- *Credit facilities (loans to customer)*

Credit facilities are carried at amortised cost less an amounts written off and provision for impairment. The provision for credit losses on loans is the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

Financial asset carried at FVTPL:

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

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

Equity instruments at FVOCI:

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on subsequent measurement of these equity instruments are never recycled to consolidated statement of profit or loss. Dividends are recognised in consolidated statement of profit or loss when the right to payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in other comprehensive income. Equity instruments at FVOCI are not subject to an impairment assessment. Upon derecognition cumulative change in fair value are reclassified from fair value reserve to retained earnings in the consolidated statement of changes in equity.

Foreign exchange gains and losses

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

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss; and
- for equity instruments measured at FVOCI, exchange differences are recognised in other comprehensive income in the fair value reserve.

Impairment of Financial Assets

The Group recognizes loss allowance for 'expected credit loss' (ECL) on bank balances, and other receivables. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money and reasonable and supportive information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group applies three-stage approach to measuring expected credit losses (ECL) as follows:

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

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

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

At each reporting date, the Group assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be 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.

Significant increase in credit risk

At each reporting date, the Group also 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.

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 shortfalls represent the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro-economic scenarios etc.

Financial liabilities

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

The Group's financial liabilities include payables and other credit balances.

Financial liabilities measured subsequently at amortised cost

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

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

Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in profit or loss, for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognised in other comprehensive income and accumulated in a separate component of equity.

Derecognition of financial assets and liabilities

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

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

Policy applicable before 1 Jan 2018

Classification

In accordance with International Accounting Standard (IAS) 39, the Group classifies its financial assets as FVTPL, Available for sale (AFS) and loans and receivables, and its financial liabilities as "other than at fair value through profit or loss".

Measurement

All financial assets and liabilities are initially recognized at its fair value. Transaction costs are added for those financial instruments not measured at fair value through profit or loss. Transaction costs on financial assets classified as investments at fair value through profit or loss are recognised in the statement of profit or loss.

Financial assets at FVTPL

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

Loans and receivables

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

Available for sale (AFS)

AFS financial assets are non-derivatives and are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. The financial assets available for sale is re-measured at fair value. Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of changes in fair value reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset, or a group of financial assets, is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

2.7 Investment properties

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

Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

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

2.8 Properties held for trading

Properties held for trading (including property under development for that purpose) are stated at cost when acquired. Cost is determined on an individual basis for such land or real estate properties, Cost represents the fair value of the consideration given, plus ownership transfer fee and brokerage expenses. Land and real estate properties held for trading are classified under current assets and are valued at the lower of cost or net realisable value whichever is low on an individual basis. Realisable value is determined on the basis of estimated sale value, less the estimated expenses necessary to complete the sale. Gains and losses from the sale of land and property held for trading are reported in the consolidated statement of income as the difference between sale value and its book value.

2.9 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 these policies.

The results of business, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting except for any investment classified as investment held for sale, as it is accounted for in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations".

Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and any other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate, (including any long-term interests represent a part of the Group's net investment in an associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Upon acquisition of an associate, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate, recognised at the date of acquisition, is recognised as goodwill. Goodwill is included within the carrying amount of the investment in an associate. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized in the consolidated statement of income.

The requirements of IAS 36: Impairment of Assets are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate is disposed.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

2.10 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition are measured as the difference between the net disposal proceeds and the carrying amount of the asset and recognised in consolidated statement of income when the asset is derecognised.

2.11 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell or value in use. 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 for which the estimates of future cash flows have not been adjusted. Impairment losses are recognised in the income statement for the period in which they arise. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.12 Provisions

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

2.13 End of service indemnity

The Group is liable under Kuwait Labour Law to make payments under defined benefit plans to employees at termination of employment, Regarding the labour law in other countries; the indemnity is calculated based on law identified in these countries. Such payment is made on a lump sum basis at the end of an employee service. Defined benefit plan is un-funded and is based on the liability that would arise on involuntary termination of all employees on the consolidated financial statements date. This basis is considered to be a reliable approximation of the present value of the Group's liability.

2.14 Dividends

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

2.15 Foreign currencies

The Parent Company's functional currency is the Kuwaiti Dinar.

Foreign currency transactions are recorded in Kuwaiti Dinars at the rates of exchange prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Kuwaiti Dinars at the rates of exchange prevailing at the statement of financial position date. Resultant gains or losses are recognized in the statement of profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Translation difference on non-monetary items classified as at fair value through statement of income are reported as part of the fair value gain or loss in the statement of profit or loss whereas the translation difference on non-monetary items classified as investment at fair value through other comprehensive income are included in investment valuation reserve in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

2.16 Revenue recognition

The Group recognise revenue from the following major sources:

- Murabaha and Wakala income are recognized on a effective yield method.
- Rental income from investment properties is recognized on a straight line basis over the term of contract.
- Revenues from sale investment properties and properties held for trading and gain or loss on disposal is recorded in the statement of income when risks and associated benefits of the sold asset's ownership have been transferred to the acquirer.
- Dividend income is recognized when the Group's right to receive dividends is established.
- Interest income from deposits is recognized on effective interest method.
- Portfolio and fund management fees is recognised over the period of time when the service is provided.

2.17 Accounting for leases

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

The Group as lessor

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

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

The Group as lessee

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

2.18 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated financial position and are disclosed separately in the consolidated financial statements.

2.19 Segment reporting

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. Such operating segments are classified as either business segments or geographical segments.

A business segment is a distinguishable component of the Group that is engaged in providing services, which is subject to risks and returns that are different from those of other segments.

A geographic segment is a distinguishable component of the Group that is engaged in providing services within a particular economic environment which is subject to risks and returns different from those of segments operating in other economic environments.

3. Critical accounting estimates and assumptions

In the application of the Group's accounting policies, the management is required to make judgments and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period of the revision and future periods if the revision affects future periods.

Judgements:

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

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed. Monitoring is part of the Group's continuous assessment of whether the business model for which the financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Classification of real estate investments

Management decides on acquisition of real estate whether it should be classified as held for trading or investment property. The Group classifies property as held for trading if this is acquired principally for sale in the ordinary course of the business. The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation.

Significant influence over associate

The Group follows the guidance in IAS 28 in deciding whether it has significant influence over investees by virtue of voting rights.

Sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value measurements and valuation techniques

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

Contingent liabilities/ liabilities

Contingent liabilities are potential liabilities that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Provisions for liabilities are recorded when an event is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities is based on management's judgment (note 30).

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

4. Cash and cash equivalents

| | Kuwaiti Dinars | |
|--------------|------------------|------------------|
| | 2018 | 2017 |
| Cash at bank | 1,448,963 | 1,822,519 |
| | <u>1,448,963</u> | <u>1,822,519</u> |

5. Investments in Murabaha, Wakala and deposits at financial institutions

| | Kuwaiti Dinars | |
|------------------------------------|------------------|------------------|
| | 2018 | 2017 |
| Murabaha & Wakala | 2,578,603 | 2,578,603 |
| Deposits at financial institutions | 1,250,000 | 500,000 |
| | <u>3,828,603</u> | <u>3,078,603</u> |
| Provision for impairment | (2,578,603) | (2,578,603) |
| | <u>1,250,000</u> | <u>500,000</u> |

5.1 All Murabaha & Wakala receivable balances are past due and impaired. The Group filed lawsuits to recover these amounts.

5.2 Investment in deposits carry interest rate of 2.65% to 2.85% as at 31 December 2018 (1.875% as at 31 December 2017). Deposits will mature in 2019.

6. Investments at fair value through profit or loss

Investments at fair value through profit or loss represent investment in local quoted equity securities.

7. Other receivables

| | Kuwaiti Dinars | |
|--------------------|----------------|----------------|
| | 2018 | 2017 |
| Rent receivable | 4,500 | - |
| Prepaid expenses | 29,225 | 29,653 |
| Refundable Deposit | 95,224 | 102,116 |
| Other | 68,857 | 87,843 |
| | <u>197,806</u> | <u>219,612</u> |

8. Properties held for trading

| | Kuwaiti Dinars | |
|--------------------------------------|------------------|------------------|
| | 2018 | 2017 |
| Balance at the beginning of the year | 3,720,915 | 3,910,845 |
| Sales | (1,491,173) | (115,333) |
| Foreign currencies translation | 28,033 | (74,597) |
| Balance at the end of the year | <u>2,257,775</u> | <u>3,720,915</u> |

Properties held for trading include properties in the Kingdom of Jordan with carrying value of KD 1,069,284 (31 December 2017: KD 1,173,332) and properties located in the USA with carrying value of KD 1,188,491 (31 December 2017: KD 2,547,583). Fair value of these properties held for trading amounted to KD 1,285,305 and 1,274,070 respectively as at 31 December 2018 and was determined based on valuations using the market comparable approach under level 2 hierarchy as carried out by independent valuers.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

9. Investments in associates

This represents the Group's share of investments in the following associate;

| | Country of incorporation | Principal activity | Ownership Percentage | |
|---|--------------------------|--------------------|----------------------|--------|
| | | | 2018 | 2017 |
| Osos Holding Group Company K.P.S.C.(Osos) | Kuwait | Investment | 25.03% | 21.69% |

Gain on acquisition of additional shares of associates is calculated as follows:

| | Kuwaiti Dinars |
|---|----------------|
| | 2018 |
| Consideration transferred | 304,215 |
| Fair value of identifiable net asset acquired | 412,313 |
| Gain on bargain purchase | 108,098 |

The summarised financial information of associate based on audited financial statements is as follows:

| | Kuwaiti Dinars | |
|--|----------------|-------------|
| | 2018 | 2017 |
| Total assets | 19,708,647 | 19,299,408 |
| Total liabilities | 6,568,392 | 6,444,653 |
| Revenue & other income | 1,967,118 | 1,869,931 |
| Profit for the period | 1,215,339 | 1,135,674 |
| Other comprehensive income | (33,966) | (15,498) |
| Dividend received | (237,976) | - |
| Net assets of the associate | 13,140,255 | 12,854,755 |
| Carrying amount of Group's interest in the associate (net) | 3,289,170 | 2,779,960 |

As at 31 Dec 2018, the fair value of the Group's investment in Osos, based on quoted market share price on the Kuwait Stock Exchange, was KD 2,453,063.

10. Available for sale investments

| | Kuwaiti Dinars | |
|--|----------------|-------------|
| | 2018 | 2017 |
| Local financial investments – quoted | - | 2,817,800 |
| Local financial investments – unquoted | - | 873,000 |
| Foreign financial investments – unquoted | - | 1,482,875 |
| | - | 5,173,675 |

11. Investment at fair value through other comprehensive income

| | Kuwaiti Dinars | |
|--------------------------------------|-------------------------|-------------------------|
| | 31 December 2018 | 31 December 2017 |
| Local equity investment – quoted | 2,022,478 | - |
| Local equity investment – unquoted | 921,223 | - |
| Foreign equity investment – unquoted | 566,794 | - |
| | 3,510,495 | - |

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

The Group management has elected to designate these Investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

12. Investment properties

Investment properties are residential buildings and real estates located in the state of Kuwait.

The fair value of the Group's investment properties as at 31 December 2018 has been arrived at on the basis of a valuation carried out on the respective dates by Independent valuers. The independent valuers are registered at the related Governmental Bodies, and they have appropriate and recent experience in the valuation of properties in the relevant locations. The Fair value is determined as follows:

- Level two: The fair value determined based on the market comparable approach that reflects recent transaction prices for similar properties and lands.
- Level three: The capitalization rate adopted based on the yield rates.

Details of investment properties and Information about the fair value hierarchy as at 31 December are as follow:

| | Level two | Level three | Fair value 31 December 2018 | Fair value 31 December 2017 |
|----------------------|------------------|------------------|-----------------------------------|-----------------------------------|
| Freehold properties | - | 4,500,000 | 4,500,000 | 4,620,000 |
| Leasehold properties | 2,450,000 | - | 2,450,000 | 2,450,000 |
| | <u>2,450,000</u> | <u>4,500,000</u> | <u>6,950,000</u> | <u>7,070,000</u> |

For investment properties categorised into level three of the fair value hierarchy, the following information is relevant:

| | Valuation technique | Significant unobservable input | Sensitivity |
|---------------------|--------------------------------|--|---|
| Freehold properties | Income Capitalization Approach | Capitalization rate of 7.58% to 7.62%, taking into account the capitalization of rental income potential, nature of the property and prevailing market conditions. | A slight increase in the capitalization rate used would result in a slight decrease in fair value and vice versa. |

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

There has been no change to the valuation technique during the year.

13. Intangible assets

Intangible assets represent cost of right to use some units in a tower located in Makkah, KSA. These rights will expire in year 2030.

| | Kuwaiti Dinars | |
|---------------------------------|------------------|------------------|
| | 2018 | 2017 |
| Cost | | |
| As at 1 st January | 1,836,022 | 1,836,022 |
| Accumulated amortization | | |
| At 1 January | 1,062,301 | 1,000,437 |
| Charged during the year | 61,864 | 61,864 |
| | <u>1,124,165</u> | <u>1,062,301</u> |
| As at 31 st December | <u>711,857</u> | <u>773,721</u> |

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

14. Payables

| | Kuwaiti Dinars | |
|---------------------------|----------------|----------------|
| | 2018 | 2017 |
| Provisions for tax claims | 153,078 | 156,371 |
| Staff accruals | 23,282 | 20,109 |
| Statutory contribution | 13,857 | 26,434 |
| Other | 395,968 | 376,604 |
| | <u>586,185</u> | <u>579,518</u> |

15. End of service indemnity

Reconciliation of provision for post-employment benefits:

| | Kuwaiti Dinars | |
|----------------------------|----------------|----------------|
| | 2018 | 2017 |
| At 1 January | 369,866 | 335,482 |
| Provisions during the year | 65,474 | 48,669 |
| Paid during the year | (48,600) | (14,285) |
| At 31 December | <u>386,740</u> | <u>369,866</u> |

16. Share capital

The Parent Company's authorized, issued and fully paid share capital amounted to KD 18,870,504 distributed over 188,705,040 (2016: 188,705,040) shares with a par value of 100 fils per share and all shares are paid in cash.

17. Treasury shares

| | 2018 | 2017 |
|---------------------------------|------------|--------|
| No. of shares (share) | 14,148,930 | 18,558 |
| Market value | 848,935 | 1,165 |
| Percentage to issued shares (%) | 7.498 | 0.010 |

The Parent Company is committed to retain reserves and retained earnings equivalent to the treasury shares throughout the period, in which they are held by the Parent Company, pursuant to the relevant instructions of the Regulatory Authorities. These shares are not pledged.

18. Statutory reserve

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the net profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, Board remuneration, national labour support tax and zakat is to be transferred to the statutory reserve. The shareholders may resolve to discontinue such annual transfers when the legal reserve reaches half of the share capital of the Parent Company. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of share capital in years when retained earnings of the Parent Company are not sufficient for the payment of a dividend of that amount.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

19. Net gain from investments

| | Kuwaiti Dinars | |
|--|----------------|----------------|
| | 2018 | 2017 |
| Investment at fair value through profit or loss | | |
| Realized gains on sale | 254,832 | 43,385 |
| Change in fair value | (10,668) | 7,080 |
| Cash dividends | 12,368 | 57,971 |
| | <u>256,532</u> | <u>108,436</u> |
| Available for sale investments | | |
| Realized gains on sale | - | 82,554 |
| Impairment loss | - | (148,088) |
| Cash dividends | - | 387,680 |
| | <u>-</u> | <u>322,146</u> |
| Investment at fair value through other comprehensive income | | |
| Cash dividends | 237,435 | - |
| | <u>493,967</u> | <u>430,582</u> |

20. Net Gain from investment properties

| | Kuwaiti Dinars | |
|----------------------|----------------|----------------|
| | 2018 | 2017 |
| Gross Rental income | 627,525 | 565,057 |
| Less: Expenses | (88,786) | (82,735) |
| Net Rental income | 538,739 | 482,322 |
| Change in fair value | (120,000) | (130,000) |
| | <u>418,739</u> | <u>352,322</u> |

21. Gain from properties held for trading

This represents gain from selling properties, recognised point in time when the ownership of the properties transferred to the acquirer.

22. Net revenue from intangible assets

| | Kuwaiti Dinars | |
|-------------------------|----------------|---------------|
| | 2018 | 2017 |
| Income from intangibles | 99,292 | 102,581 |
| Amortisation | (61,864) | (61,864) |
| | <u>37,428</u> | <u>40,717</u> |

23. Other Income

Other income includes reversal of advance received from customers amounting to KD 94,401 (KD NIL: 2017) and gain on acquisition of additional shares of associate (note 9) amounting to KD 108,098 (KD 55,771: 2017) during the year.

24. Other expenses

| | Kuwaiti Dinars | |
|----------------------------------|----------------|----------------|
| | 2018 | 2017 |
| Professional fees | 29,066 | 61,705 |
| Rent | 121,758 | 121,758 |
| Legal expenses | 16,138 | 22,509 |
| Subscription fees | 59,737 | 32,895 |
| Depreciation & Amortisation | 6,964 | 4,663 |
| Remuneration of Sharia committee | 2,750 | 3,250 |
| Miscellaneous expenses | 96,967 | 131,650 |
| | 333,380 | 378,430 |

25. Earnings per share

Earnings per share is calculated on the basis of the net profit attributable to the shareholders of the Parent Company and the weighted average number of ordinary shares outstanding during the year which is determined based on the outstanding shares of the issued capital during the year as follows:

| | 2018 | 2017 |
|--|-------------|-------------|
| Net profit for the year attributable to the shareholders of the Parent Company | 702,666 | 1,013,427 |
| Issued shares | 188,705,040 | 188,705,040 |
| Treasury shares | 14,148,930 | 18,558 |
| Weighted average number of shares | 181,203,387 | 188,686,482 |
| Earnings per share attributable to the Parent Company shareholders (fils) | 3.88 | 5.37 |

26. Dividends

On 26 March 2019, the Board of Directors proposed not to distribute dividends for 2018. This proposal is subject to the approval of the shareholders in the general assembly.

27. Related party transactions

In the normal course of business, the Group enters into related party transactions (Principal shareholders, members of the Board of Directors, senior executive management and companies that are owned by major shareholders). Followings are the significant balances and transactions with related parties other than what is disclosed in the other notes:

| | Kuwaiti Dinars | |
|---|----------------|-------------|
| | 2018 | 2017 |
| Statement of income | | |
| Remuneration of key management personnel | 292,201 | 316,975 |
| Revenue generated from management of portfolios | 33,573 | 16,313 |
| Statement of financial position | | |
| Key management benefits payable | 280,500 | 265,536 |

The Group manages portfolios on behalf of related parties, the net assets of those portfolios amounted to KD 5,377,870 as at 31 December 2018 (KD 8,033,856 as at 31 December 2017). As these assets are held in a fiduciary capacity, these assets are not included in the consolidated statement of financial position.

All transactions are subject to the approval of the shareholders in the Annual General Assembly.

28. Subsidiaries

Following are the subsidiaries included in these consolidated financial statements:

| <u>Company name</u> | <u>Ownership percentage (%)</u> | | <u>Activity</u> | <u>Country of corporation</u> |
|---|---------------------------------|-------------|------------------------|-------------------------------|
| | <u>2018</u> | <u>2017</u> | | |
| Osoul House for Real Estate Co. (W.L.L) | 99 | 99 | Investments properties | Kuwait |
| Petro Q8 Co. (W.L.L) | 99 | 99 | General trading | Kuwait |
| Osoul Leasing and Finance (Private Sharing Co.) | 100 | 100 | Investments properties | Jordan |
| Osoul Holding DE I, Inc | - | 100 | Investments properties | USA |
| Osoul Holding DE II, Inc | 100 | 100 | Investments properties | USA |
| Osoul Holding DE III, Inc | 100 | 100 | Investments properties | USA |

Total assets of the subsidiaries are 9,303,296 as of 31 December 2018 (KD 10,863,175 as of 31 December 2017), and their net profit for the year ended 31 December 2018 are KD 296,473 (KD 333,649 for the year ended 31 December 2017).

There were no assets or liabilities in Osoul Holding DE I, Inc. The Parent Company has liquidated wholly owned subsidiary, Osoul Holding DE I, Inc. during 2018.

29. Segment distribution

The Group carries out its main activities in the State of Kuwait through three major segments:

- Finance segment- Investment in Murabaha, Wakala and deposit at financial institutions
- Investment segment- Investments in securities and portfolio management
- Real-estate segment- Investments in real estate

All activities are mentioned in note (1).

The analysis of segment information is as follows:-

| | <u>Kuwaiti Dinars</u> | | | |
|-------------------------|-------------------------|---------------------------|----------------------------|--------------|
| | <u>31 December 2018</u> | | | |
| | <u>Finance segment</u> | <u>Investment segment</u> | <u>Real-estate segment</u> | <u>Total</u> |
| Segments revenues | 69,694 | 1,124,303 | 473,539 | 1,667,536 |
| Total segments' results | (30,641) | 421,513 | 325,651 | 716,523 |
| Net Profit for the year | | | | 702,666 |
| Segments assets | 1,478,270 | 10,413,800 | 10,012,195 | 21,904,265 |
| Segment liabilities | 136,751 | 780,112 | 56,062 | 972,925 |

The analysis of segment information is as follows:-

| | <u>Kuwaiti Dinars</u> | | | |
|-------------------------|-------------------------|---------------------------|----------------------------|--------------|
| | <u>31 December 2017</u> | | | |
| | <u>Finance segment</u> | <u>Investment segment</u> | <u>Real-estate segment</u> | <u>Total</u> |
| Segments revenues | 215,795 | 1,400,303 | 413,005 | 2,029,103 |
| Total segments' results | 112,351 | 694,064 | 233,446 | 1,039,861 |
| Net Profit for the year | | | | 1,013,427 |
| Segment assets | 572,115 | 10,070,835 | 11,649,193 | 22,292,143 |
| Segment liabilities | 223,515 | 508,534 | 217,335 | 949,384 |

For the purposes of monitoring segment performance and allocating resources between segments:

- There are no assets used jointly by any reportable segment.
- There are no liabilities for which any segment is jointly liable.

Geographical distribution of assets and revenues

| | Kuwaiti Dinars | | | |
|---------------------------|-------------------|------------------|-------------------|------------------|
| | 2018 | | 2017 | |
| | Assets | Revenues | Assets | Revenues |
| State of Kuwait | 18,335,062 | 1,522,702 | 16,238,058 | 1,930,726 |
| Gulf Co-operation council | 1,278,652 | 169,106 | 1,337,616 | 40,717 |
| Other Arabian Countries | 1,102,060 | (24,272) | 2,168,886 | (9,371) |
| U.S.A. | 1,188,491 | - | 2,547,583 | 67,031 |
| | <u>21,904,265</u> | <u>1,667,536</u> | <u>22,292,143</u> | <u>2,029,103</u> |

30. Contingent liabilities

The Group has the following contingent liabilities:

30.1 Contingent liabilities under letters of guarantee;

| | Kuwaiti Dinars | |
|----------------------|------------------|------------------|
| | 31 December 2018 | 31 December 2017 |
| Letters of guarantee | 18,380 | 18,380 |

30.2 A former related party has filed a lawsuit against the Group to oblige it to settle management fees of finance receivables portfolio. The case has been transferred to the Expert Department. The Group is in the process of finalizing this case according to the settlement agreement signed with that party. The next hearing will be on April 2019 for receiving the report and submitting conciliation award.

30.3 There are lawsuits against the Group raised by a client whose portfolio was managed by the Group, claiming for compensation against the portfolio losses. A judgment has been issued to dismiss the case due to lack of jurisdiction and to transfer the case to CMA court. The CMA court dismissed the case based on the Expert Report. The plaintiff then filed an appeal and the lawsuit has been transferred to the Experts Department. The Group's management believes it is difficult to determine the outcome of this lawsuit at present

30.4 During 2016, the Group has received a tax claim amounting to Saudi Riyal 56.3 Million (equivalent to KD 4.52 Million) from the General Authority of Zakat and Tax (GAZT)- Kingdom of Saudi Arabia ("KSA") for the fiscal years from 2006 to 2014. The claim includes corporate income tax, withholding tax and other penalties in respect of the Group's income realized from leased units on a tower located in Mecca - KSA. The Group's management believes that the figures used in computing the tax claim are significantly different from the actual income. Therefore, the Group's management has appointed a Tax Advisor in KSA to review the tax claim. Further, the Group has duly submitted an objection memo to the Authority, and has applied for opening a tax file with them.

Based on the tax Advisor's opinion and his correspondences with the Operator, the Group has assessed the financial impact of the above-mentioned tax claim to be KD 250 thousand and has made a full provision for this purpose. Out of this provision, an amount of KD 97 thousand was paid against the withholding tax for the years from 2008 to 31st December 2016. Group has paid all the tax dues and submitted tax declaration return.

The preliminary objection committee resolved to reject the objection filed by the Group against the tax assessment for the financial year from 2006 to 2014. On 15th August 2017, the Group submitted an objection letter to the tax appeal committee against the objection committee's resolution.

On 11/11/2018, the Group received a notice from General Secretariat of Tax Committees ("GSTC"), which has been assigned to be responsible for all tax disputes. GSTC requested Group to provide them with all the documents of dispute that was submitted before to GAZT. Consequently, GSTC has been provided with the documents required in the scheduled time by the Group.

31. Fair value estimation

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, i.e. an exit price. The fair value measurement assumes 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 Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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.

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

| Financial assets | Fair value as at 31 December | | Fair value hierarchy | Valuation technique (s) and Key input(s) | Significant unobservable inputs | Relationship of unobservable inputs to fair value |
|--|------------------------------|-----------|----------------------|--|---------------------------------|---|
| | 2018 | 2017 | | | | |
| Investments at fair value through profit or loss: | | | | | | |
| - Local quoted securities | 2,278,997 | 218,221 | Level 1 | Bid prices | N/A | N/A |
| Investments at fair value through other comprehensive income: | | | | | | |
| - Local quoted Securities | 2,022,478 | - | Level 1 | Bid prices | N/A | N/A |
| - Local unquoted Securities | 921,223 | - | Level 3 | Adjusted Net Assets Value | Discount rate | The higher the discount factor and illiquidity discount factor, the lower the fair value. |
| - Foreign Unquoted Securities | 566,794 | - | Level 3 | Adjusted Net Assets Value | Discount rate | The higher the discount factor and illiquidity discount factor, the lower the fair value. |
| Available for sale investments: | | | | | | |
| - Local quoted securities | - | 2,817,800 | Level 1 | Bid prices | N/A | N/A |
| - Local unquoted securities | - | 873,000 | Level 3 | Adjusted Net Assets Value | Discount rate | The higher the discount factor and illiquidity discount factor, the lower the fair value. |
| - Foreign unquoted securities | - | 563,894 | Level 3 | Adjusted Net Assets Value | Discount rate | The higher the discount factor and illiquidity discount factor, the lower the fair value. |

The fair values of the financial assets and financial liabilities included in the level 3 category above have been determined in accordance with generally accepted pricing models. There are no transfers between fair value levels during the year.

The carrying amount of financial assets and financial liabilities carried at amortised cost is approximately equal to their fair value.

32. Financial risk management

32.1 Financial risk

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

The Group manages these financial risks by continuously evaluating market conditions and trends and assessment of long and short-term market factors.

Market risk

Market risk, comprising of foreign currency risk, interest rate risk and equity price risk arises due to movements in foreign currency rates, interest rates and equity prices respectively.

Foreign exchange risk

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

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

The Group had the following significant exposures on assets and liabilities denominated in foreign currencies, translated into Kuwaiti Dinar at the closing rate at year end:

| | KD'000 | |
|-----------|-------------------------|-------------------------|
| | 31 December 2018 | 31 December 2017 |
| US Dollar | 1,208,706 | 3,515,378 |
| Others | 2,449,897 | 2,552,350 |

Foreign currency sensitivity is determined based on 5% (31 December 2017: 5%) increase or decrease in exchange rate. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

If the Kuwaiti Dinar had strengthened/weakened against the foreign currencies assuming the sensitivity given in the table below, following could be the impact on the profit for the year and the equity:

| | KD'000 | | | |
|---------------------|-------------------------|-------------|-------------------------|-------------|
| | 31 December 2018 | | 31 December 2017 | |
| | + 5% | - 5% | + 5% | - 5% |
| Profit for the year | 154,590 | (154,590) | 229,243 | (229,243) |
| Equity | 28,340 | (28,340) | 74,144 | (74,144) |

The Group's exposure to currency risk arises mainly from investment in FVOCI investment.

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

Equity Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated financial statements as investments at fair value through profit or loss and investment at fair value through other comprehensive income. The Group has established its policies to study and evaluate investment opportunities, diversifying the portfolios in order to manage the impact from long term change in fair value. The following table demonstrates the sensitivity of the changes in Kuwait index by 5% on Group's net profit with other factors held constant.

| | KD'000 | | | |
|-----------------------|----------------------|--------|------------------|---------|
| | Effect on net profit | | Effect on equity | |
| | 2018 | 2017 | 2018 | 2017 |
| Kuwait Stock Exchange | 113,950 | 10,911 | 101,124 | 140,890 |

Interest rate risk

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

Credit risk

The credit risk is the risk that the Group will incur a loss due to the Group's inability to collect the debt when counter parties fail to discharge their contractual obligations against the Group.

The credit risk arises from balances and deposits at banks and financial institutions including Wakala and Murabaha receivables and other receivables.

The Group manages the credit risk related to deposits, Wakala and Murabaha through dealing with local financial institutions with a good reputation in the market. The Group manages the credit risk relating to other receivables by setting credit policies in order to reduce the concentration of credit risk via diversifying the finance portfolio. The Group is not exposed to any significant credit risk exposure to any single counterparty.

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

| | Kuwaiti Dinars | |
|---|------------------|------------------|
| | 2018 | 2017 |
| Bank balances | 1,448,963 | 1,822,519 |
| Investment in Murabaha, Wakala and Deposits at financial institutions | 1,250,000 | 500,000 |
| Other receivables | 168,581 | 189,959 |
| | <u>2,867,544</u> | <u>2,512,478</u> |

Credit facilities amounting to KD 2,587,201 are credit impaired and fully provided for.

The credit risk for cash and bank balance and short term deposits is considered negligible, since the counterparties are reputable financial institutions with high credit quality. The Group recognizes ECL for cash and bank balances using the general approach.

The Group has applied the simplified approach in IFRS 9 to measure the loss allowance on other receivables at lifetime ECL. The Group determines the expected credit losses on these items based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due.

The Group manages this risk by maintaining sufficient cash and cash equivalents as well as providing the necessary funding sources by agreeing on credit facilities that provide liquidity to the Group.

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

The table below analysis the Group's liabilities during the expected maturity periods from the consolidated financial statements date.

| | Kuwaiti Dinars | | |
|------------------------------------|------------------------------------|-------------------------|----------------|
| | 2018 | | |
| | Within 3 months | From 3 months to 1 year | Total |
| Payables and other credit balances | 186,780 | 246,327 | 433,107 |
| | <u>186,780</u> | <u>246,327</u> | <u>433,107</u> |
| | 2017 | | |
| | Within 3 months | From 3 months to 1 year | Total |
| | Payables and other credit balances | 237,863 | 185,284 |
| | <u>237,863</u> | <u>185,284</u> | <u>423,147</u> |

The table below analysis the Group's assets and liabilities during the expected maturity periods from the financial statements date.

| | Kuwaiti Dinars | | | |
|--|------------------|-------------------------|------------------|------------------|
| | 2018 | | | |
| | Within 3 months | From 3 months to 1 year | After 1 year | Total |
| Assets | | | | |
| Cash and cash equivalents | 1,448,963 | - | - | 1,448,963 |
| Investments in Murabaha, Wakala and deposits at financial institutions | - | 1,250,000 | - | 1,250,000 |
| Investments at fair value through profit or loss | 2,278,997 | - | - | 2,278,997 |
| Other receivables | 73,575 | 73,653 | 50,578 | 197,806 |
| Investments at fair value through other comprehensive income | - | - | 3,510,495 | 3,510,495 |
| | <u>3,801,535</u> | <u>1,323,653</u> | <u>3,561,073</u> | <u>8,686,261</u> |
| Liabilities | | | | |
| Payables | 186,780 | 246,327 | - | 433,107 |
| | <u>186,780</u> | <u>246,327</u> | <u>-</u> | <u>433,107</u> |
| | Kuwaiti Dinars | | | |
| | 2017 | | | |
| | Within 3 months | From 3 months to 1 year | After 1 year | Total |
| Assets | | | | |
| Cash and cash equivalents | 1,822,519 | - | - | 1,822,519 |
| Investments in Murabaha, Wakala and deposits at financial institutions | - | 500,000 | - | 500,000 |
| Investments at fair value through profit or loss | 218,221 | - | - | 218,221 |
| Other receivables | 109,790 | 66,749 | 43,073 | 219,612 |
| Investments at fair value through other comprehensive income | - | - | 5,173,675 | 5,173,675 |
| | <u>2,150,530</u> | <u>566,749</u> | <u>5,216,748</u> | <u>7,934,027</u> |
| Liabilities | | | | |
| Payables | 237,863 | 185,284 | - | 423,147 |
| | <u>237,863</u> | <u>185,284</u> | <u>-</u> | <u>423,147</u> |

32.2 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. There were no changes in the Group's approach to capital management during the year and the Group is not subject to externally imposed capital requirements.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders and issue new shares. Capital includes equity attributable to the equity holders of the Parent Company less cumulative changes in fair values.

32.3 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, system failure or from external events. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk. The management ensures compliance with policies and procedures and monitors operational risk as part of the overall risk management.

33. Fiduciary assets

The Group manages portfolios on behalf of others with net assets of KD 7,108,409 as at 31 December 2018 (10,818,685 as at 31 December 2017). These balances are not included in the consolidated financial position.

34. Comparatives

Certain prior period amounts have been regrouped to confirm with current period presentation.