

**Arzan Financial Group for Financing and Investment KPSC  
(formerly International Finance Company KPSC)  
and Subsidiaries  
Kuwait**

**Consolidated financial statements and independent auditors' report  
For the year ended 31 December 2013**

**Arzan Financial Group for Financing and Investment KPSC  
(formerly International Finance Company KPSC) and subsidiaries  
Kuwait**

**Consolidated financial statements and independent auditors' report  
For the year ended 31 December 2013**

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## Independent auditors' report

To the shareholders of  
**Arzan Financial Group for Financing and Investment KPSC**  
**(formerly International Finance Company KPSC)**  
**Kuwait**

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Arzan Financial Group for Financing and Investment KPSC (formerly International Finance Company KPSC) ("the parent company") and subsidiaries, (collectively "the group") which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

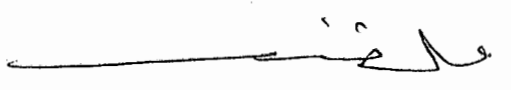
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Arzan Financial Group for Financing and Investment KPSC (formerly International Finance Company KPSC) and subsidiaries as at 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use in the State of Kuwait.

**Report on Other Legal and Regulatory Matters**

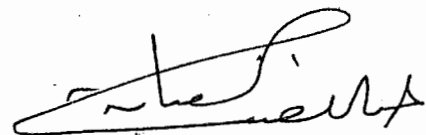
In our opinion, proper books of account have been kept by the parent company and the consolidated financial statements, together with the contents of the report of the parent company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 25 of 2012 and by the parent company's articles and memorandum 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. 25 of 2012 or of the parent company's Articles and Memorandum of Association, as amended, have occurred during the year ended 31 December 2013, that might have had a material effect on the business or the consolidated financial position of the group.

We further report that, during the course of our audit, we have not become aware of any material violations, during the year ended 31 December 2013, of the provisions of Law No. 7 of 2010, as amended, concerning the Capital Markets Authority, and its related regulations.

We further report that, during the course of our audit, we have not become aware of any material violations, during the year ended 31 December 2013, of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations.



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License No. 38-A  
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Abdullatif M. Al-Aiban (CPA)  
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Grant Thornton  
Al-Qatami, Al-Aiban & Partners

Kuwait: 16 March 2014

**Arzan Financial Group for Financing and Investment KPSC  
(formerly International Finance Company KPSC) and subsidiaries  
Kuwait**

**Consolidated statement of financial position  
As at 31 December 2013**

		(Restated)	
	Notes	31 December 2013	31 December 2012
		KD	KD
<b>Assets</b>			
Cash and cash equivalents	6	12,062,146	8,506,863
Instalment credit debtors	7	9,454,266	23,120,497
Investments at fair value through statement of income	8	8,120,193	7,626,053
Held to maturity investment		283,050	283,050
Accounts receivable and other assets	9	5,016,378	5,029,119
Due from related parties	30	108,920	182,106
Properties held for trading	10	1,849,329	3,236,722
Available for sale investments	11	75,973,784	51,795,829
Investment in associates	12	54,071,423	33,408,914
Investment properties	13	1,950,185	2,009,247
Property and equipment	14	2,725,633	2,789,239
<b>Total assets</b>		<u>171,615,307</u>	<u>137,987,639</u>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Due to banks	15	2,374,655	2,519,280
Accounts payable and other liabilities	16	7,492,130	6,567,527
Due to related parties	30	271,060	2,222,582
Term loans	17	16,000,000	1,706,800
Murabaha payable	18	6,800,000	8,400,000
Provision for end of service indemnity		579,856	495,654
<b>Total liabilities</b>		<u>33,517,701</u>	<u>21,911,843</u>
<b>Equity</b>			
Share capital	19	80,288,257	80,288,257
Share premium	19	32,950,027	32,950,027
Treasury shares	20	(597,141)	(931,786)
Treasury shares reserve		-	157,713
Legal reserve	21	6,977,142	7,087,901
Voluntary reserve	21	-	151,824
Foreign currency translation reserve		3,718	(189,578)
Fair value reserve		14,565,861	8,615,587
Accumulated losses		(12,709,887)	(15,102,296)
<b>Equity attributable to the owners of the parent company</b>		<u>121,477,977</u>	<u>112,890,740</u>
Non-controlling interests	4	16,619,629	3,185,056
<b>Total equity</b>		<u>138,097,606</u>	<u>116,075,796</u>
<b>Total liabilities and equity</b>		<u>171,615,307</u>	<u>142,438,681</u>

  
**Jassem Hasan Zainal**  
*Chairman and Chief Executive Officer*

The notes set out on pages 9 to 63 form an integral part of these consolidated financial statements.

**Arzan Financial Group for Financing and Investment KPSC**  
**(Formerly known as International Finance Company KPSC) and subsidiaries**  
**Kuwait**

**Consolidated statement of income**  
For the year ended 31 December 2013

	Notes	Year ended 31 December 2013 KD	Year ended 31 December 2012 KD
<b>Revenue</b>			
Income from instalment credit debtors	23	1,615,070	2,598,190
Rental income		162,708	112,819
Interest income		410,626	249,070
Gain on sale of investments at fair value through statement of income		120,018	8,396
Change in fair value of investments at fair value through statement of income		(364,951)	213,316
Gain /(loss) on sale of available for sale investments		1,338,985	(174,051)
Gain /(loss) on sale of properties held for trading		183,736	(124,456)
Share of results of associates	12	1,227,119	(3,451)
Gain on sale of investment in an associate	12	184,625	-
Gain /(loss) on foreign currency exchange		274,529	(26,504)
Dividend income	24	1,323,617	744,695
Brokerage income		304,975	395,927
Advisory fees		328,709	183,865
Reversal of provision for instalment credit debtors-net	7	2,375,505	1,667,297
Other income		143,067	86,892
		<u>9,628,338</u>	<u>5,932,005</u>
<b>Expenses and other charges</b>			
Staff costs		(1,719,495)	(1,537,886)
General and administrative expenses		(1,452,624)	(1,227,844)
Finance costs	25	(1,499,226)	(1,023,455)
Depreciation		(176,762)	(190,697)
Provision for doubtful debts	9	(603,019)	(1,491,723)
Impairment of available for sale investments	11	(1,831,234)	(822,084)
		<u>(7,282,360)</u>	<u>(6,293,689)</u>
<b>Profit / (loss) for the year before contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax and Zakat</b>			
		2,345,978	(361,684)
Contribution to Kuwait Foundation for the Advancement of Sciences		-	-
National Labour Support Tax		(63,028)	-
Zakat		(15,646)	-
<b>Profit / (loss) for the year</b>		<u>2,267,304</u>	<u>(361,684)</u>
<b>Attributable to:</b>			
Owners of the parent company		2,371,605	121,344
Non-controlling interests		(104,301)	(483,028)
		<u>2,267,304</u>	<u>(361,684)</u>
<b>Basic and diluted earnings per share attributable to the owners of the parent company</b>			
	26	<u>2.978 Fils</u>	<u>0.152 Fils</u>

The notes set out on pages 9 to 63 form an integral part of these consolidated financial statements.

**Arzan Financial Group for Financing and Investment KPSC**  
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**Kuwait**

**Consolidated statement of comprehensive income**  
For the year ended 31 December 2013

	Year ended 31 December 2013 KD	Year ended 31 December 2012 KD
Profit / (loss) for the year	2,267,304	(361,684)
<i>Other comprehensive income items:</i>		
<i>Items that may be reclassified subsequently to consolidated statement of income:</i>		
Exchange differences arising on translation of foreign operations	501,054	53,562
Available for sale investments:		
- Net change in fair value	4,525,507	(461,419)
- Transferred to consolidated statement of income on sale	(406,467)	276,305
- Transferred to consolidated statement of income on impairment	1,831,234	822,084
<b>Total other comprehensive income for the year</b>	<u>6,451,328</u>	<u>690,532</u>
<b>Total comprehensive income for the year</b>	<u>8,718,632</u>	<u>328,848</u>
<b>Attributable to:</b>		
Owners of the parent company	8,515,175	808,744
Non-controlling interests	203,457	(479,896)
	<u>8,718,632</u>	<u>328,848</u>

The notes set out on pages 9 to 63 form an integral part of these consolidated financial statements.

Arzan Financial Group for Financing and Investment KPSC  
(formerly International Finance Company KPSC) and subsidiaries  
Kuwait

Consolidated statement of changes in equity  
For the year ended 31 December 2013

	Equity attributable to the owners of the parent company										
	Share capital KD	Share premium KD	Treasury shares KD	Legal reserve KD	Voluntary reserve KD	Foreign currency translation reserve KD	Fair value reserve KD	Accumulated losses KD	Sub-total KD	Non-controlling interests KD	Total KD
Balance at 1 January 2013 (as previously reported)	80,288,257	32,950,027	(931,786)	7,087,901	151,824	(189,578)	8,615,587	(15,081,492)	112,890,740	612,786	113,503,526
Non-controlling interests arising on a business combinations (note 4.2)	-	-	-	-	-	-	-	-	-	2,572,270	2,572,270
Balance at 1 January 2013 (as restated)	80,288,257	32,950,027	(931,786)	7,087,901	151,824	(189,578)	8,615,587	(15,081,492)	112,890,740	3,185,056	116,075,796
Profit/(loss) for the year	-	-	-	-	-	-	-	2,371,605	2,371,605	(104,301)	2,267,304
Other comprehensive income items:											
Exchange differences arising on translation of foreign operations	-	-	-	-	-	193,296	-	-	193,296	307,758	501,054
Available for sale investments:											
- Net change in fair value	-	-	-	-	-	-	4,525,507	-	4,525,507	-	4,525,507
- Transferred to consolidated statement of income on sale	-	-	-	-	-	-	(406,467)	-	(406,467)	-	(406,467)
- Transferred to consolidated statement of income on impairment	-	-	-	-	-	-	1,831,234	-	1,831,234	-	1,831,234
Total comprehensive income for the year	-	-	-	-	-	193,296	5,950,274	2,371,605	8,515,175	203,457	8,718,632
Purchase of treasury shares	-	-	(461,694)	-	-	-	-	-	(461,694)	-	(461,694)
Sale of treasury shares	-	-	796,339	(110,759)	(151,824)	-	-	-	533,756	-	533,756
Transactions with owners	-	-	334,645	(110,759)	(151,824)	-	-	-	72,062	-	72,062
Non-controlling interests arising on a business combinations (note 4.2)	-	-	-	-	-	-	-	-	-	13,231,116	13,231,116
Balance at 31 December 2013	80,288,257	32,950,027	(597,141)	6,977,142	-	3,718	14,565,861	(12,709,887)	121,477,977	16,619,629	138,097,606

The notes set out on pages 9 to 63 form an integral part of these consolidated financial statements.



Arzan Financial Group for Financing and Investment KPSC  
(formerly International Finance Company KPSC) and subsidiaries  
Kuwait

Consolidated statement of changes in equity  
For the year ended 31 December 2013

	Equity attributable to the owners of the parent company										Non-controlling interests	Total
	Share capital	Share premium	Treasury shares	Treasury shares reserve	Legal reserve	Voluntary reserve	Foreign currency translation reserve	Fair value reserve	Accumulated losses	Sub-total		
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2012 (as previously reported)	80,288,257	32,950,027	(1,432,303)	157,713	7,087,901	501,900	(240,008)	7,978,617	(15,003,587)	112,288,517	1,092,682	113,381,199
Prior year adjustment	-	-	-	-	-	-	-	-	(98,709)	(98,709)	-	(98,709)
Balance at 1 January 2012 (as restated)	80,288,257	32,950,027	(1,432,303)	157,713	7,087,901	501,900	(240,008)	7,978,617	(15,102,296)	112,189,808	1,092,682	113,282,490
Profit/(loss) for the year	-	-	-	-	-	-	-	-	121,344	121,344	(483,028)	(361,684)
Other comprehensive income items:												
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	50,430	-	-	50,430	3,132	53,562
Available for sale investments:												
- Net change in fair value	-	-	-	-	-	-	-	(461,419)	-	(461,419)	-	(461,419)
- Transferred to consolidated statement of income on sale	-	-	-	-	-	-	-	276,305	-	276,305	-	276,305
- Transferred to consolidated statement of income on impairment	-	-	-	-	-	-	-	822,084	-	822,084	-	822,084
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	50,430	636,970	121,344	808,744	(479,896)	328,848
Purchase of treasury shares	-	-	(538,714)	-	-	-	-	-	-	(538,714)	-	(538,714)
Sale of treasury shares	-	-	1,039,231	(157,713)	-	(350,076)	-	-	-	531,442	-	531,442
Transactions with owners	-	-	500,517	(157,713)	-	(350,076)	-	-	-	(7,272)	-	(7,272)
Restatement adjustment in an associate's equity (note 12)	-	-	-	-	-	-	-	-	(100,540)	(100,540)	-	(100,540)
Balance at 31 December 2012 (as previously reported)	80,288,257	32,950,027	(931,786)	-	7,087,901	151,824	(189,578)	8,615,587	(15,081,492)	112,890,740	612,786	113,503,526
Non-controlling interests arising on a business combinations (note 4.2)	-	-	-	-	-	-	-	-	-	-	2,572,270	2,572,270
Balance at 31 December 2012 (as restated)	80,288,257	32,950,027	(931,786)	-	7,087,901	151,824	(189,578)	8,615,587	(15,081,492)	112,890,740	3,185,056	116,075,796

The notes set out on pages 9 to 63 form an integral part of these consolidated financial statements.

**Arzan Financial Group for Financing and Investment KPSC  
(formerly International Finance Company KPSC) and subsidiaries  
Kuwait**

**Consolidated statement of cash flows  
For the year ended 31 December 2013**

	Notes	Year ended 31 December 2013 KD	(Restated) Year ended 31 December 2012 KD
<b>OPERATING ACTIVITIES</b>			
Profit / (loss) for the year		2,267,304	(361,684)
<i>Adjustments for:</i>			
Interest income		(410,626)	(249,070)
Dividend income	24	(1,323,617)	(744,695)
Impairment of available sale investments	11	1,831,234	822,084
(Gain)/ loss on sale of available for sale investments		(1,338,985)	174,051
Gain on sale of investment in an associate	12	(184,625)	-
Share of results of associates	12	(1,227,119)	3,451
(Gain)/ loss on sale of properties held for trading		(183,736)	124,456
Reversal of provision for instalment credit debtors - net	7	(2,375,505)	(1,667,297)
Provision for doubtful debts	9	603,019	1,491,723
Finance costs		1,499,226	1,023,455
Depreciation		176,762	190,697
Gain on sale of property and equipment		-	(16)
Provision for staff indemnity		190,519	219,429
		<u>(476,149)</u>	<u>1,026,584</u>
<b>Changes in operating assets and liabilities:</b>			
Instalment credit debtors		16,041,736	16,314,937
Investments at fair value through statement of income		(494,140)	(256,469)
Accounts receivable and other assets		12,739	(1,097,259)
Due from / to related parties		(1,257,605)	641,345
Accounts payable and other liabilities		924,603	(977,375)
		<u>14,751,184</u>	<u>15,651,763</u>
<b>Cash from operations</b>		<u>(106,317)</u>	<u>(994,005)</u>
Staff indemnity paid		14,644,867	14,657,758
<b>Net cash generated from operating activities</b>			
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	14	(63,784)	(65,120)
Proceeds from sale of property and equipment		-	1,612
Purchase of held to maturity investment		-	(283,050)
Purchase of properties held for trading	10	(1,263,553)	(1,748,298)
Proceeds from sale of properties held for trading		2,863,411	1,638,452
Purchase of available for sale investments	11	(22,593,232)	(4,819,436)
Proceeds from sale of available for sale investments		4,279,553	2,309,161
Purchase of investment in associates	12	(22,516,609)	(5,345,986)
Proceeds from sale of investment in an associate		1,316,501	-
Dividend income received		1,323,617	744,695
Dividend income from associate	12	717,601	-
Interest income received		410,626	249,070
		<u>(35,525,869)</u>	<u>(7,318,900)</u>
<b>Net cash used in investing activities</b>			
<b>FINANCING ACTIVITIES</b>			
Net change in due to banks		(144,625)	(2,091,031)
Receipt/ (repayment) of term loans		14,293,200	(2,545,082)
Repayment of murabaha payable		(1,600,000)	(1,600,000)
Purchase of treasury shares		(461,694)	(538,714)
Sale of treasury shares		533,756	531,442
Non-controlling interests arising on a business combination		13,231,116	2,572,270
Finance costs paid		(1,499,226)	(1,023,455)
		<u>24,352,527</u>	<u>(4,694,550)</u>
<b>Net cash from/(used in) financing activities</b>		<u>3,471,525</u>	<u>2,644,288</u>
Net increase in cash and cash equivalents		83,758	53,558
Translation of foreign operation		8,506,863	5,809,017
Cash and cash equivalents at beginning of the year		<u>12,062,146</u>	<u>8,506,863</u>
Cash and cash equivalents at end of the year	6		

The notes set out on pages 9 to 63 form an integral part of these consolidated financial statements.

**Arzan Financial Group for Financing and Investment KPSC  
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Kuwait**

**Notes to the consolidated financial statements**  
For the year ended 31 December 2013

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**1. Incorporation and activities**

International Finance Company – KSC (Closed) (the “parent company”) was incorporated in Kuwait on 15 April 1980 in accordance with the Commercial Companies Law under the name of International Transport Equipment Company – KSC (Closed). On 14 December 1996, an extraordinary general assembly resolved to change the name of the parent company to International Murabaha Company – KSC (Closed). Later, on 24 April 2002, an extraordinary general assembly resolved to change the name of the parent company to International Finance Company – KSC (Closed) and to expand its permitted activities.

The extraordinary general assembly held on 24 July 2013 approved to change the name of the parent company from International Finance Company – KSCC to Arzan Financial Group for Financing and Investment – KPSC which has been registered in the commercial register under No. 29629 on 11 November 2013.

The parent company is listed on the Kuwait Stock Exchange and is governed under the directives of the Central Bank of Kuwait and the Capital Markets Authority.

The group comprises the parent company and its subsidiaries (together referred as “the group”). The details of the subsidiaries are noted in Note 4.2.

The principal activities of the group are as follows;

- 1- Trading through transportation and related heavy equipment;
- 2- Financing the purchases of capital commodities and durable and non-durable goods;
- 3- Leasing the capital goods and the durable goods;
- 4- Granting short and medium term loans for of individuals and legal entities;
- 5- Real estate investment transactions to manage and develop residential land, and constructing of commercial and residential units and complexes in order to sell them in cash or instalments or rent them;
- 6- Managing all types and forms of financial portfolios, investing and developing of funds by utilising them locally and globally for the company or on behalf of its customers including required lending and borrowing operations;
- 7- Mediation in lending, borrowing, brokerage and guarantees transactions for a commission or fee;
- 8- Financing and brokerage in the international and local trading;
- 9- Managing and establishing mutual funds in accordance with the law and after obtaining the approval of the competent authorities;
- 10- Brokerage in international investment instruments and securities;
- 11- Investment in real estate, industrial, agricultural and other economic sectors, either directly or by participating in the establishment of specialised entities or buying the shares of these entities;

**Arzan Financial Group for Financing and Investment KPSC  
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**Notes to the consolidated financial statements**  
For the year ended 31 December 2013

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**1. Incorporation and activities (Continued)**

- 12- Buying and selling of foreign currencies and trading in precious metals for the parent company only;
- 13- Conducting researches and studies related to real estate projects as well as those relating to the utilisation of funds for the company or for others;
- 14- Trading in securities such as shares, investment certificates and the like.
- 15- The parent company may have interest or participate in any way with the companies practicing similar activities or which may assist it to achieve its objectives inside or outside the State of Kuwait. The company may also purchase these companies or affiliate them therewith.

The Companies Law issued on 26 November 2012 by Decree Law no. 25 of 2012 (the "Companies Law"), cancelled the Commercial Companies Law No. 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Decree Law no. 97 of 2013 (the Decree). The Executive Regulations of the new amended law issued on 29 September 2013 were published in the official Gazette on 6 October 2013. As per article 3 of the executive regulations, the existing companies have one year from the date of publishing the executive regulations to comply with the new amended law and the related regulations.

The address of the parent company's registered office is PO Box 26442, Safat 13125, State of Kuwait.

The consolidated financial statements for the year ended 31 December 2013 were approved for issuance by the board of directors of the parent company on 16 March 2014 and are subject to the approval of the general assembly of the shareholders.

**2. Statement of compliance**

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, as modified for use by the Government of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all IFRSs except for the IAS 39 requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait requirement for a minimum general provision of 1% for cash facilities and 0.5% for non-cash facilities. These rates are to be applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period.

**3. Changes in accounting policies**

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those used in previous year except for the adoption of the new and amended standards as follows.

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3. Changes in accounting policies (Continued)

3.1 Adoption of new IASB Standards and amendments during the period

The group has adopted the following new and amended IFRS during the period:

Standard or Interpretation	Effective for annual periods beginning
IAS 1 Presentation of Financial Statements – amendment	1 July 2012
IAS 19 Employee Benefits	1 January 2013
IAS 27 Consolidated and Separate Financial Statements (Revised as IAS 27 Separate Financial Statements)	1 January 2013
IAS 28 Investments in Associates (Revised as IAS 28 Investments – Associates and Joint Ventures)	1 January 2013
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
IFRS 7 Financial Instruments: Disclosures – amendments	1 January 2013
Annual Improvements 2009-2011	1 January 2013

3.1.1 *IAS 1 Presentation of Financial Statements- amendment*

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

3.1.2 *IAS 19 Employee Benefits (Revised)*

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require recognition of changes in defined benefit obligations and fair value changes of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. In case of the group, the transition to IAS 19R had no impact on the group's consolidated financial position or performance.

3.1.3 *IAS 27 Consolidated and Separate Financial statements – Revised as IAS 27 Separate Financial Statements*

The amended version of IAS 27 now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27 Consolidated and Separate Financial Statements. The standard outlines the accounting and disclosure requirements for 'separate financial statements', which are financial statements prepared by a parent, or an investor in a joint venture or associate, where those investments are accounted for either at cost or in accordance with IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments. The standard also outlines the accounting requirements for dividends and contains numerous disclosure requirements. The adoption of this standard has not resulted in any significant impact on the consolidated financial statements of the group.

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3. Changes in accounting policies (Continued)

3.1 Adoption of new IASB Standards and amendments during the period (continued)

3.1.4 *IAS 28 Investments in Associates – Revised as IAS 28 Investments in Associates and Joint Ventures*

As a result of the consequential amendments, IAS 28 brings investments in joint ventures into its scope. However, the equity accounting methodology under IAS 28 remains unchanged.

The adoption of this amendment did not have any significant impact on the financial position or performance of the group.

3.1.5 *IFRS 10 Consolidated Financial Statements*

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and of SIC-12 Consolidation – Special Purpose Entities. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns.

The group adopted IFRS 10 in the current year. The application of IFRS 10 affected the accounting for the group's 9.44% interest in the equity shares in Hilltop 1 UK Limited. Hilltop 1 UK Limited was previously classified as an investment in associate and was accounted for using the equity method. At the date of initial application of IFRS 10 (1 January 2013), the group assessed that it controls Hilltop 1 UK Limited.

Consequently, the group has consolidated the financial statements of Hilltop 1 UK Limited based on its 9.44% (2012: 22.18%) equity interest and accounted for the balance of 90.56% (2012: 77.82%), as non-controlling interests, amounting to KD 96,979 (2012: KD nil). The consolidated statement of financial position has been restated to reflect the above reclassification with retrospective effect. There was no material effect on the results for the year ended 31 December 2012, accordingly the consolidated statement of income has not been restated.

3.1.6 *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards. The adoption of this standard has resulted in an additional disclosure in the consolidated financial statements of the group (notes 4.2 and 12).

3.1.7 *IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad and it applies for both financial and non-financial items for which other IFRSs require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances. IFRS 13 defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The adoption of this standard has resulted in additional disclosures in the consolidated financial statements of the group (note 32).

3. Changes in accounting policies (Continued)

3.1 Adoption of new IASB Standards and amendments during the period (continued)

3.1.8 *IFRS 7 Financial Instruments: Disclosures – Amendments*

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

The adoption of the above amendments did not have any significant impact on the financial position or performance of the group.

3.1.9 *Annual Improvements 2009-2011*

The Annual Improvements 2009-2011 (the Annual Improvements) made several minor amendments to a number of IFRSs. The amendments relevant to the group are summarised below:

*Clarification of the requirements for opening statement of financial position:*

- clarifies that the appropriate date for the opening statement of financial position is the beginning of the preceding period (related notes are no longer required to be presented)
- addresses comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8.

*Clarification of the requirements for comparative information provided beyond minimum requirements:*

- clarifies that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements
- requires that any additional information presented should be presented in accordance with IFRS and the entity should present comparative information in the related notes for that additional information.

*Tax effect of distribution to holders of equity instruments:*

- addresses a perceived inconsistency between IAS 12 'Income Taxes' (IAS 12) and IAS 32 'Financial Instruments: Presentation' (IAS 32) with regards to recognising the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction
- clarifies that the intention of IAS 32 is to follow the requirements in IAS 12 for accounting for income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.

*Segment information for total assets and liabilities:*

- clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (i) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; (ii) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment.

The adoption of the above amendments did not have any significant impact on the financial position or performance of the group.

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**3. Changes in accounting policies (Continued)**

**3.2 IASB Standards issued but not yet effective**

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group.

Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncement. Management is yet to determine impact of these pronouncements in the consolidated financial statements. Information on new standards, amendments and interpretations that are expected to be relevant to the group's financial statements is provided below.

**3.2.1 IAS 32 Financial Instruments: Presentation - Amendments**

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off'. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements.

The amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the group, since none of the entities in the group would qualify to be an investment entity under IFRS 10.

**3.2.2 IFRS 9 'Financial instruments' (Revised effective date open until all other outstanding phases of IFRS 9 have been finalised)**

The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and amended in October 2010 and November 2013. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities, and hedge accounting have been issued. Chapter dealing with impairment methodology is still being developed. The group's management have yet to assess the impact of this new standard on the group's consolidated financial statements. Management does not expect to implement IFRS 9 until it has been completed and its overall impact can be assessed.



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**3. Changes in accounting policies (Continued)**

**3.2 IASB Standards issued but not yet effective (continued)**

**3.2.3 IAS 36, 'Impairment of assets' on recoverable amount disclosures'**

IFRS 13 amended IAS 36 paragraph 134 (c) to include the disclosure of the recoverable amount for CGUs with significant carrying amounts of goodwill. However the IASB indicated that this was not their intention and published an amendment to IAS 36 in May 2013 to remove the disclosure requirements. Disclosure of the recoverable amount will still be required for CGUs for which there has been an impairment loss during the period. It is not expected that this amendment would be relevant to the group. The amendment is effective for annual periods starting on or after 1 January 2014, early adoption is permitted.

**3.2.4 IFRIC 21 Levies**

IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. The Interpretation clarifies that 'economic compulsion' and the going concern principle do not create or imply that an obligating event has occurred. IFRIC 21 provides the following guidance on recognition of a liability to pay levies, a) the liability is recognised progressively if the obligating event occurs over a period of time, and b) if an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014.

**3.2.5 Annual Improvements to IFRSs 2010–2012 Cycle (Effective date 1 July 2014, with earlier application permitted):**

(i) *Amendments to IFRS 2*-the definitions of key terms including market, performance, service, and vesting conditions are now clearly separated.

(ii) *Amendments to IFRS 3*-Contingent consideration that does not meet the definition of an equity instrument is subsequently measured at each reporting date fair value, with changes recognised in profit or loss.

(iii) *Amendments to IFRS 8*-Disclosures are required regarding judgements made by management in aggregating operating segments (i.e. description, economic indicators).

A reconciliation of reportable segments' assets to total entity assets is required if this is regularly provided to the chief operating decision maker.

(iv) *Amendments to IFRS 13*- the addition to the Basis for Conclusions confirms the existing measurement treatment of short-term receivables and payables.

(v) *Amendments to IAS 16 and IAS 38*- When items are revalued, the gross carrying amount is adjusted on a consistent basis to the revaluation of the net carrying amount.

(vi) *Amendments to IAS 24*- Entities that provide key management personnel services to a reporting entity, or the reporting entity's parent, are considered to be related parties of the reporting entity.

**3.2.6 Annual Improvements to IFRSs 2011–2013 Cycle (Effective date 1 July 2014, with earlier application permitted):**

(i) *Amendments to IFRS 1*-the amendment to the Basis for Conclusions clarifies that an entity preparing its IFRS financial statements in accordance with IFRS 1 is able to use both:

- IFRSs that are currently effective
- IFRSs that have been issued but are not yet effective, that permit early adoption.

The same version of each IFRS must be applied to all periods presented.

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**3. Changes in accounting policies (Continued)**

**3.2 IASB Standards issued but not yet effective (continued)**

**3.2.6 Annual Improvements to IFRSs 2011–2013 Cycle (Effective date 1 July 2014, with earlier application permitted): (continued)**

*(ii) Amendments to IFRS 3-* IFRS 3 is not applied to the formation of a joint arrangement in the financial statements of the joint arrangement itself.

*(iii) Amendments to IFRS 13-* the scope of the portfolio exemption (IFRS 13.52) includes all items that have offsetting positions in market and/or counterparty credit risk that are recognised and measured in accordance with IAS 39/IFRS 9, irrespective of whether they meet the definition of a financial asset/liability.

*(iv) Amendments to IAS 40-* the amendment emphasises that whether the acquisition of an investment property is a business combination requires judgement of the specific requirements of IFRS 3, independently from the requirements of IAS 40, including whether the investment property is owner occupied.

**4. Significant accounting policies**

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

**4.1 Basis of preparation**

These consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional currency of the parent company and are prepared under the historical cost convention, except for certain investments at fair value through statement of income and available for sale investments that are measured at fair value.

The group has elected to present the "statement of comprehensive income" in two statements: the "statement of income" and "statement of comprehensive income".

**4.2 Basis of consolidation**

**Subsidiaries**

The consolidated financial statements incorporate the financial statements of the parent company and entities (including special purpose entities) controlled by the parent company (its subsidiaries) as at 31 December 2013. Where the parent company has control over an investee, it is classified as a subsidiary. The group controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the parent company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the parent company considers all relevant facts and circumstances, including:

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**4. Significant accounting policies (Continued)**

**4.2 Basis of consolidation (continued)**

- The size of the parent company's voting rights relative to both the size and dispersion of other parties who hold voting rights
- Substantive potential voting rights held by the parent company and by other parties
- Other contractual arrangements
- Historic patterns in voting attendance.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the consolidated statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the group 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. The consolidated financial statements present the results of the parent company and its subsidiaries as if they are formed as a single entity. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the group had directly disposed of the related assets or liabilities.

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4. Significant accounting policies (Continued)

4.2 Basis of consolidation (continued)

4.2.a Composition of the group

Set out below are details of subsidiaries held directly by the group:

Company name	Voting capital held as at 31 December		Place of incorporation	Principal activities	Reporting date
	2013	2012			
Al-Addan Real Estate Co. – W.L.L	97%	97%	Kuwait	Trading in all real estate activities.	31 December 2013
Al-Addan International for Collection Co. – W.L.L	80%	80%	Kuwait	Trading in real estate activities and collect the money on behalf of other.	31 December 2013
Kuwait Invest Real Estate Co.– W.L.L	99%	99%	Kuwait	Real estate services	31 December 2013
International Finance Company – SAL	100%	100%	Lebanon	Finance services including financing, management and brokerage.	30 September 2013
IFA Securities Brokerage Co.- SAE	74.67%	74.67%	Egypt	Brokerage services	30 September 2013
International Financial Advisers Company – W.L.L	65.2%	65.2%	Jordan	Brokerage services	30 September 2013
Saudi Invest Real Estate Co. – W.L.L	100%	100%	Saudi Arabia	Real estate services	30 September 2013
Lot 67 Zimbali South Africa Investments (Pty) Ltd	100%	100%	South Africa	Investments activities	30 September 2013
Arzan Wealth (DIFC) Co. Limited	100%	-	United Arab Emirates	Financial advisory services	30 September 2013
Arzan VC for Project Management –W.L.L	99%	-	Kuwait	Project management	30 September 2013
Hilltop 1 UK Limited	9.44%	22.18%	United Kingdom	Real estate	30 June 2013
Hilltop 2 UK Limited	33.79%	-	United Kingdom	Real estate	30 June 2013
Hilltop 3 UK Limited	43.53%	-	United Kingdom	Real estate	31 December 2013
Hilltop 4 UK Limited	45.41%	-	United Kingdom	Real estate	31 December 2013

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**4. Significant accounting policies (Continued)**

**4.2 Basis of consolidation (continued)**

During the year, the parent company established a new wholly owned subsidiary in the United Arab Emirates under the name of Arzan Wealth (DIFC) Co. Limited with a capital of USD 1,000,000 (equivalent to KD 283,900). The subsidiary commenced operations during the year and is engaged in financial advisory services.

During the year, the parent company established a new local subsidiary under the name of Arzan VC for Project Management –W.L.L with a capital of Kuwaiti Dinar 200,000 and it is engaged in the projects and properties management.

During the year, the group participated in the establishment of Hilltop 2 UK Limited with an amount of KD 31,131 representing its 33.79% interest ownership interest in the subsidiary.

Also, the group participated in the establishment of Hilltop 3 UK Limited with an amount of KD 187,489 representing 43.53% interest ownership in the subsidiary.

Further, the group participated in the establishment of Hilltop 4 UK Limited with an amount of KD 3,929,201 representing 45.41% ownership in the subsidiary.

The group considers that it controls Hilltop 1 UK Limited, Hilltop 2 UK Limited, Hilltop 3 UK Limited, and Hilltop 4 UK Limited even though it owns less than 50% ownership interest. As a result of contractual arrangement with the other investors in these entities, the group has the majority voting rights through class "A" shares in the respective companies, and its approval is required for all major operational decisions.

**4.2.b Subsidiaries with material non-controlling interests:**

IFA Securities Brokerage Co. – SAE, International Financial Advisors Company – W.L.L., Hilltop 3 UK Limited and Hilltop 4 UK Limited, a 74.67%, 65.2%, 43.53% and 45.41% respectively owned subsidiaries of the group that has material non-controlling interests (NCI) of KD 302,098, KD 314,119, KD 10,708,324 and KD 4,723,521 (2012: KD 302,098, KD 314,119, KD Nil and KD Nil) respectively. The NCI of all other subsidiaries that are not 100% owned by the group are considered to be immaterial.

Summarised financial information in relation to the NCI of IFA Securities Brokerage Co. – SAE, International Financial Advisors Company – W.L.L., Hilltop 3 UK Limited and Hilltop 4 UK Limited before intra-group eliminations is presented below:

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4. Significant accounting policies (Continued)

4.2 Basis of consolidation (continued)

4.2.b. Subsidiaries with material non-controlling interests (continued)

Summarised statement of financial position

	IFA Securities Brokerage Co. SAE		International Financial Advisors W.L.L.		Hilltop 3 UK Limited		Hilltop 4 UK Limited	
	2013 KD	2012 KD	2013 KD	2012 KD	2013 KD	2012 KD	2013 KD	2012 KD
As at 31 December								
Assets								
Current	3,708,243	3,663,016	1,726,329	1,555,272	11,473,302	-	9,125,507	-
Non-Current	3,632,313	3,568,163	1,724,490	1,551,868	182,180	-	241,887	-
	75,930	94,853	1,839	3,404	11,291,122	-	8,883,620	-
Liabilities								
Current	3,031,642	3,039,251	430,767	248,469	4,354,720	-	-	-
Non-Current	3,031,642	3,039,251	430,767	248,469	133,149	-	-	-
	-	-	-	-	4,221,571	-	-	-
Equity	676,601	623,765	1,295,562	1,306,803	7,118,582	-	9,125,507	-
Equity attributable to the owners of the parent company	505,218	465,765	844,706	852,036	3,098,719	-	4,143,893	-
Non-controlling interests	171,383	158,000	450,856	454,767	4,019,863	-	4,981,614	-
	676,601	623,765	1,295,562	1,306,803	7,118,582	-	9,125,507	-

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4. Significant accounting policies (Continued)

4.2 Basis of consolidation (continued)

4.2.b Subsidiaries with material non-controlling interests (continued)

Summarised statement of income

	IFA securities Brokerage Co. SAE		International Financial Advisors W.L.L.		Hilltop 3 UK Limited	
	2013	2012	2013	2012	2013	2012
	KD	KD	KD	KD	KD	KD
For the year ended 31 December						
Revenue	476,475	362,727	81,174	61,016	405,928	-
Administrative expenses	(254,337)	(247,155)	(91,442)	(97,807)	(11,996)	-
Other expenses	(9,050)	(590,986)	(1,762)	(918,105)	-	-
Operating profit /(loss)	213,088	(475,414)	(12,030)	(954,896)	393,932	-
Finance costs	(93,307)	(107,962)	(5,516)	(8,439)	(552,068)	-
Profit / (loss) for the year	119,781	(583,376)	(17,546)	(963,335)	(158,136)	-
Total comprehensive income /(loss) for the year	119,781	(583,376)	(17,546)	(963,335)	(158,136)	-
Attributable to:						
Owners of the parent company	89,440	(435,607)	(11,505)	(628,094)	(68,837)	-
Non-controlling interests	30,341	(147,769)	(6,041)	(335,241)	(89,299)	-
	119,781	(583,376)	(17,546)	(963,335)	(158,136)	-

Summarised statement of cash flows

	IFA Securities Brokerage Co. SAE		International Financial Advisors W.L.L.		Hilltop 3 UK Limited		Hilltop 4 UK Limited	
	2013	2012	2013	2012	2013	2012	2013	2012
	KD	KD	KD	KD	KD	KD	KD	KD
Cash flows from operating activities	256,977	390,828	(31,677)	235,568	-	-	-	-
Cash flows from investing activities	(6,855)	1,205	68,793	88,665	-	-	-	-
Cash flows from financing activities	-	-	10,239	(2,900)	-	-	-	-
Net cash inflows	250,122	392,033	47,355	321,333	-	-	-	-

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**4. Significant accounting policies (Continued)**

**4.2 Basis of consolidation (continued)**

**4.2.c Interests in unstructured entities:**

The group has no interests in unstructured entities

**4.3 Business combinations**

The group applies the acquisition method in accounting for business combinations. The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

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

The group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

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

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in the consolidated statement of income immediately.

**4.4 Goodwill**

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses.

**4.5 Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured, regardless of when payment is made.

Revenue arises from rendering of services and is measured by reference to the fair value of consideration received or receivable, excluding taxes, rebates, and trade discounts. The group applies the revenue recognition criteria set out below to each separately identifiable component of revenue.



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**4. Significant accounting policies (Continued)**

**4.5 Revenue recognition (continued)**

**4.5.1 *Income from instalment credit debtors***

Interest on instalment credit facilities is calculated at the time of a contract with the customer. The customer repays the total amount due (including interest) by equal instalments over the period of the contract. The interest is allocated over the life of the agreement using the "effective interest" method. Interest relating to outstanding instalments is considered as deferred income and is included in the consolidated statement of financial position as a deduction from instalment credit debtors.

**4.5.2 *Commission income***

Commission income is recognised in full in the consolidated statement of income at the date of the contract with the customer.

**4.5.3 *Interest income***

Interest income is recognised using the effective interest method.

**4.5.4 *Rental income***

Rental income is recognised on a straight-line basis over the period of the rental contracts.

**4.5.5 *Dividend income***

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

**4.5.6 *Fee income from providing transaction services***

Fees arising for rendering specific advisory services, brokerage services, equity and debt placement transactions for a third party or arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

**4.6 Operating expenses**

Operating expenses are recognised in consolidated statement of income upon utilisation of the service or at the date of their origin.

**4.7 Finance costs**

Finance costs are recognised on a time proportion basis taking into account the outstanding balance of borrowing payable and applicable interest rate.

Finance costs that are directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Capitalisation of finance costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognised as an expense in the period in which they are incurred.

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**4. Significant accounting policies (Continued)**

**4.8 Taxation**

**4.8.1 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 attributable to the owners of the parent company. 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.

**4.8.2 Kuwait Foundation for the Advancement of Sciences (KFAS)**

The contribution to KFAS is calculated at 1% of taxable profit of the group attributable to the owners of the parent company 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.

**4.8.3 Zakat**

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

Under the NLST and Zakat regulations, no carry forward of losses to the future years or any carry back to prior years is permitted.

**4.9 Segment reporting**

The group has four operating segments: instalment credit, investment, real estate and brokerage. In identifying these operating segments, management generally follows the group's service lines representing its main products and services. Each of these operating segments is managed separately as each requires different approaches and other resources. All inter-segment transfers are carried out at arm's length prices.

For management purposes, the group uses the same measurement policies as those used in its financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

**4.10 Investment in associates**

An associate is an entity over which the group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The group's investment in associates is accounted for under the equity method of accounting, i.e. on the statement of financial position at cost plus post-acquisition changes in the group's share of the net assets of the associate, less any impairment and the consolidated statement of income reflects the group's share of the results of operations of associates.

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**4. Significant accounting policies (Continued)**

**4.10 Investment in associates (continued)**

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 the associate recognised at the date of acquisition is recognised as goodwill.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the parent company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated statement of income.

Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the group's share in the associate arising from changes in the associate's equity. Changes in the group's share in associate's equity are recognised immediately in the consolidated statement of changes in equity.

When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions with associate are eliminated to the extent of the group's share in the associate. Unrealised losses are also eliminated unless the transactions provide evidence of impairment in the asset transferred.

An assessment for impairment of investment in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

The associate's financial statements are prepared either to the parent company's reporting date or to a date not earlier than three months of the parent company's reporting date using consistent accounting policies. Where practicable, adjustments are made for the effect of significant transactions or other events that occurred between the reporting date of the associates and the parent company's reporting date.

Upon loss of significant influence over the associate, the group measures and recognises any retaining investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in the consolidated statement of income.

**4.11 Financial instruments**

**4.11.1 Recognition, initial measurement and derecognition**

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through statement of income which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

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4 Significant accounting policies (Continued)

4.11 Financial instruments (continued)

4.11.1 Recognition, initial measurement and derecognition (continued)

A financial asset (or, where applicable a part of financial asset or part of group of similar financial assets) is derecognised when:

- rights to receive cash flows from the assets have expired;
- the group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either
  - (a) the group has transferred substantially all the risks and rewards of the asset or
  - (b) the group has neither transferred nor retained substantially all risks and rewards of the asset but has transferred control of the asset.

Where the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the group's continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated statement of income.

4.11.2 Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through statement of income (FVTSI)
- held to maturity (HTM) investments
- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTSI are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

• **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

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**4 Significant accounting policies (Continued)**

**4.11 Financial instruments (continued)**

**4.11.2 Classification and subsequent measurement of financial assets (continued)**

The group categorises loans and receivables into following categories:

- *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, balances with banks and other financial institutions and short term deposits due within three months net of bank overdrafts, which are subject to an insignificant risk of changes in value.

- *Instalment credit debtors*

Instalment credit debtors are stated in the consolidated financial position at amortised cost, net of specific and general provisions. Specific provisions are made to reduce impaired receivables to their estimated recoverable amount and general provisions are made at a rate of 1% on instalment credit debtors for which no specific provisions were made, to provide for losses known from experience to exist, but not yet specifically identifiable, in accordance with the Central Bank of Kuwait instructions in that respect. The recoverable amounts are based on estimated future cash flows discounted at the original effective interest rate on a portfolio basis for groups of similar debtors.

- *Accounts receivable and other assets*

Accounts receivable and other assets are stated at original amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred

- *Due from related parties*

Due from related parties are financial assets originated by the group by providing money directly to the borrower that have fixed or determinable payments and are not quoted in an active market.

• *Financial assets at FVTSI*

Classification of investments as financial assets at FVTSI depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of consolidated statement of income in the management accounts, they are as designated at FVTSI upon initial recognition. All derivative financial instruments fall into this category.

Assets in this category are measured at fair value with gains or losses recognised in consolidated statement of income. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

• *HTM investments*

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the group has the intention and ability to hold them until maturity. The group currently holds convertible notes designated into this category.

4 Significant accounting policies (Continued)

4.11 Financial instruments (continued)

4.11.2 Classification and subsequent measurement of financial assets (continued)

• *HTM investments(continued)*

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in consolidated statement of income.

• *AFS financial assets*

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in consolidated statement of income. All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the fair value reserve within equity, except for impairment losses, and foreign exchange differences on monetary assets, which are recognised in statement of income. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to statement of income and presented as a reclassification adjustment within other comprehensive income.

The group assesses at each reporting date whether there is objective evidence that a financial asset available for sale or a group of financial assets available for sale is impaired. In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss is removed from other comprehensive income and recognised in the consolidated statement of income.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in consolidated statement of income only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

4.11.3 Classification and subsequent measurement of financial liabilities

The group's financial liabilities include due to banks, accounts payable and other liabilities, due to related parties, term loans and murabaha payable.

The subsequent measurement of financial liabilities depends on their classification as follows:

• *Financial liabilities other than at fair value through income statement*

These are stated using effective interest rate method. Due to banks, accounts payable and other liabilities, due to related parties, term loans, murabaha payable are classified as financial liabilities other than at FVTSL.

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**4 Significant accounting policies (Continued)**

**4.11 Financial instruments (continued)**

**4.11.3 Classification and subsequent measurement of financial liabilities (continued)**

- *Term loans and due to banks*

All term loans and due to banks are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

- *Payables and other liabilities*

Payables and other liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed or not.

- *Murabaha payable*

Murabaha payable represents amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payable is stated at the gross amount of the payable, net of deferred finance cost. Deferred finance cost is expensed on a time apportionment basis taking into account the borrowing rate attributable and the balance outstanding.

All the profit-related charges are included within finance costs.

**4.12 Amortised cost of financial instruments**

This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

**4.13 Trade and settlement date accounting**

All 'regular way' purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**4.14 Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**4.15 Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

**4 Significant accounting policies (Continued)**

**4.15 Fair value of financial instruments (continued)**

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 31.

**4.16 Impairment of financial assets**

An assessment is made at each financial position date to determine whether there is objective evidence that a specific financial asset or a company of financial assets may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

- i) For assets carried at fair value, impairment is the difference between cost and fair value;
- ii) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- iii) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Except for reversal of impairment losses related to equity instruments classified as available for sale, all other impairment reversals are recognised in the consolidated statement of income to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date. Impairment reversals in respect of equity instruments classified as available for sale are recognised in fair value reserve.

**4.17 Impairment testing of goodwill and non-financial assets**

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the group's management as equivalent to its operating segments) are tested for impairment at least annually.

All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.



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**4. Significant accounting policies (Continued)**

**4.17 Impairment testing of goodwill and non-financial assets (continued)**

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

**4.18 Properties held for trading**

Properties held for trading are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each property to its present condition including identifiable finance cost. Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

**4.19 Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the cost model. Investment properties are initially measured at cost, being the purchase price and any directly attributable expenditure for a purchased investment property and cost at the date when construction or development is complete for a self constructed investment property.

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses. Gains and losses arising from the sale of investment properties are included in the consolidated statement of income.

The estimated useful life for the calculation of depreciation, excluding land, is 25 years using straight line method. The carrying amounts are reviewed at each reporting date on an individual basis to assess whether they are recorded in excess of their recoverable amount. Provision for impairment losses, if any, are made where carrying values exceed the recoverable amount.

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

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**4. Significant accounting policies (Continued)**

**4.20 Property and equipment**

Land is stated at cost less any impairment losses based upon the reports of independent professional valuers.

Capital expenditure on assets in the course of construction where engineering drawings are complete or where the group has obtained a licence for development from the official authorities or has commenced construction works thereon are deferred as Building under Construction. Such costs are subsequently charged to the consolidated statement of income if the project is abandoned, or, if the project is completed, are capitalised and transferred to the appropriate property and equipment category, from which time depreciation is charged using the rate applicable to the category concerned. Interest incurred on funds specifically obtained to finance construction activities are capitalised using the actual interest rate incurred during construction.

Other property and equipment assets are stated at cost less accumulated depreciation. The group depreciates these assets using the straight-line method at rates estimated to fully depreciate the cost of the property and equipment over their expected useful lives.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property. In the case of leasehold property, expected useful lives are determined by reference to comparable owned assets or over the term of the lease, if shorter.

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of income.

**4.21 Provisions, contingent assets and contingent liabilities**

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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**4. Significant accounting policies (Continued)**

**4.22 Equity, reserves and dividend payments**

Share capital represents the nominal value of shares that have been issued and paid up.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Legal and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the Companies' Law and the parent company's articles of association, as amended.

Other components of equity include the following:

- Foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the group's foreign entities into KD.
- Fair value reserve – comprises valuation gains and losses relating to available for sale financial assets.
- Treasury shares reserve – comprises gains and losses resulting from sale of treasury shares.

Retained earnings/Accumulated losses includes all current and prior period retained profits and losses.

All transactions with owners are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting.

**4.23 Treasury shares**

Treasury shares consist of the parent company's own issued shares that have been reacquired by the group and not yet reissued or cancelled. Treasury shares are accounted for under cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. Treasury shares are not entitled to cash dividends that the group may distribute. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

When the treasury shares are reissued, gains are recorded directly in "treasury shares reserve" in the shareholders' equity. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and legal reserve. Subsequent to this, should profits arise from sale of treasury shares an amount is transferred to reserves and retained earnings equal to the loss previously charged to this account.

**4.24 Related parties transactions**

Related parties are associates, major shareholders, board of directors, executive staff, their family members and the companies owned by them. All related party transactions are carried out with the approval of the group's management.

**4. Significant accounting policies (Continued)**

**4.25 End of service indemnity**

The group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date.

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

**4.26 Foreign currency translation**

**4.26.1 Functional and presentation currency**

The consolidated financial statements are presented in currency Kuwait Dinar (KD), which is also the functional currency of the parent company. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

**4.26.2 Foreign currency transactions and balances**

Foreign currency transactions are translated into the functional currency of the respective group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in consolidated statement of income. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

**4.26.3 Foreign operations**

In the group's financial statements, all assets, liabilities and transactions of group entities with a functional currency other than the KD are translated into KD upon consolidation. The functional currency of the entities in the group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to the consolidated statement of income and are recognised as part of the gain or loss on disposal.

**4.27 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 these consolidated financial statements.

**5. Significant management judgements and estimation uncertainty**

The preparation of the group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**5.1 Significant management judgments**

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

**5.1.1 Classification of financial instruments**

Judgements are made in the classification of financial instruments based on management's intention at acquisition.

The group classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making.

Classification of financial assets as at fair value through statement of income depends on how management monitors the performance of these financial assets. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as designated at fair value through statement of income.

Classification of assets as loans and receivables depends on the nature of the asset. If the group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the group has the intention and ability to hold them until maturity. The group currently holds convertible notes designated into this category.

All other financial assets are classified as available for sale.

**5.1.2 Fair values of assets and liabilities acquired**

The determination of the fair value of the assets, liabilities and contingent liabilities as a result of business combination requires significant judgement.

**5.1.3 Control assessment**

When determining control, management considers whether the group has the practical ability to direct the relevant activities of an investee on its own to generate returns for itself. The assessment of relevant activities and ability to use its power to affect variable return requires considerable judgement.

**5.2 Estimates uncertainty**

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

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**5. Significant management judgements and estimation uncertainty (Continued)**

**5.2 Estimates uncertainty (continued)**

**5.2.1 Impairment of assets with definite lives**

At the financial position date, the group's management assesses, whether there is any indication that assets with definite lives may be impaired. The recoverable amount of an asset is determined based on the "value in use" method. This method uses estimated cash flow projections over the estimated useful life of the asset.

**5.2.2 Impairment of associates**

After application of the equity method, the group determines whether it is necessary to recognise any impairment loss on the group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

**5.2.3 Impairment of available for sale investments**

The group treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

**5.2.4 Impairment of receivables**

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

**5.2.5 Classification of real estate property**

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

The group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

The group classifies property as property under development if it is acquired with the intention of development.

The group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

**5.2.6 Useful lives of depreciable assets**

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

**5.2.7 Business combinations**

Management uses valuation techniques in determining the fair values of the various elements of a business combination. Particularly, the fair value of contingent consideration is dependent on the outcome of many variables that affect future profitability.

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**5. Significant management judgements and estimation uncertainty (Continued)**

**5.2 Estimates uncertainty (continued)**

**5.2.8 Fair value of financial instruments**

Management applies valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (note 32).

**5.2.9 Significant influence**

Significant influence exists when the size of an entity's own voting rights relative to the size and dispersion of other vote holders, give the entity the practical ability unilaterally to direct the relevant activities of the company.

**6. Cash and cash equivalents**

	<u>31 December 2013</u>	<u>31 December 2012</u>
	KD	KD
Cash and bank balances	8,947,736	5,718,071
Term deposits (mature within 1-3 months)	3,114,410	2,788,792
	<u>12,062,146</u>	<u>8,506,863</u>

The term deposits carry an effective annual interest rate of 1.75% (31 December 2012: 1.75%)

**7. Instalment credit debtors**

	<u>31 December 2013</u>	<u>31 December 2012</u>
	KD	KD
Gross instalment credit debtors	23,401,664	39,636,721
Deferred income	(983,643)	(1,179,136)
	22,418,021	38,457,585
Specific provision for doubtful debts	(10,957,594)	(14,767,423)
General provision for doubtful debts	(2,006,161)	(569,665)
	<u>9,454,266</u>	<u>23,120,497</u>

Gross instalment credit debtors are repayable as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
	KD	KD
Within one year	19,278,570	30,326,338
After one year	4,123,094	9,310,383
	<u>23,401,664</u>	<u>39,636,721</u>

The effective annual interest rate earned on income from instalment credit ranges from 3% to 9% per annum (31 December 2012: 3% to 9%).

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**7. Instalment credit debtors (Continued)**

The movement in the provision for instalment credit debtors is as follows:

	31 December 2013			31 December 2012		
	Specific provision KD	General provision KD	Total KD	Specific provision KD	General provision KD	Total KD
Opening balance	14,767,423	569,665	15,337,088	17,063,718	957,478	18,021,196
Foreign currency translation	2,172	-	2,172	11,505	-	11,505
Written off	-	-	-	(1,028,316)	-	(1,028,316)
Charge for the year	55,116	32,269	87,385	40,389	24,426	64,815
Transfer	(1,412,715)	1,412,715	-	-	-	-
Reversal during the year	(2,454,402)	(8,488)	(2,462,890)	(1,319,873)	(412,239)	(1,732,112)
Closing balance	<u>10,957,594</u>	<u>2,006,161</u>	<u>12,963,755</u>	<u>14,767,423</u>	<u>569,665</u>	<u>15,337,088</u>

The provision for doubtful debts is in agreement, in all material respect, with the specific provision requirements of the Central Bank of Kuwait and IFRS. Furthermore, a general provision of 1% on instalment credit balances, where no specific provision is made, is taken in accordance with the instructions of the Central Bank of Kuwait. During the year the, the group have transferred an amount of KD 1,412,715 (2012: KD Nil) from specific provision to the general provision as per the instructions of the Central Bank of Kuwait.

Included within the gross instalment credit debtors is an amount of KD 3,148,937 (31 December 2012: KD 13,379,803) in respect of related parties (note 30). This amount is secured by way of pledge of certain local and foreign shares. During the year, a loan to a related party having a gross amount and accrued interest of KD 10,175,746 was settled by way of the parent company subscribing in the share issue of the related party. The shares received as part of this settlement have been classified as available for sale.

The gross instalment credit debtors include an amount of KD 252,719 (31 December 2012: KD 747,059) representing a portfolio of customer loans which have been discounted according to a debt factoring agreement with a local bank (note 15).

**8. Investments at fair value through statement of income**

	31 December 2013 KD	31 December 2012 KD
Local quoted shares	2,018,191	1,289,837
Foreign quoted shares	191,595	264,531
Investment in managed portfolios	5,910,407	6,071,685
	<u>8,120,193</u>	<u>7,626,053</u>

An investment portfolio with a carrying value of KD 5,910,407 (31 December 2012: KD 6,071,685) is pledged against term loans and murabaha payable (notes 17 and 18).



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**9. Accounts receivable and other assets**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	KD	KD
Trade receivables	5,537,317	3,200,663
Provision for doubtful debts (see below)	<u>(2,094,742)</u>	<u>(1,491,723)</u>
	3,442,575	1,708,940
Staff loans receivable	17,576	34,077
Prepayments and refundable deposits	46,882	44,904
Advance payment towards purchase of investments	930,241	2,263,541
Other assets	<u>579,104</u>	<u>977,656</u>
	<u>5,016,378</u>	<u>5,029,118</u>

a) This represents provisions for certain doubtful receivables by one of the group's subsidiaries.

**10. Properties held for trading**

Properties held for trading represent the group's share of investments in properties outside Kuwait.

The movement in the properties held for trading is as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	KD	KD
<b>Balance at 1 January</b>	3,954,715	4,271,720
Additions	1,263,553	1,748,298
Sale	<u>(2,679,675)</u>	<u>(2,065,303)</u>
	2,538,593	3,954,715
Provision for properties held for trading	<u>(689,264)</u>	<u>(717,993)</u>
<b>Balance at 31 December</b>	<u>1,849,329</u>	<u>3,236,722</u>

The movement in the provision for properties held for trading is as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	KD	KD
<b>Balance at 1 January</b>	717,993	1,020,388
Relating to sale	<u>(28,729)</u>	<u>(302,395)</u>
<b>Balance at 31 December</b>	<u>689,264</u>	<u>717,993</u>

**11. Available for sale investments**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	KD	KD
Local quoted shares	39,653,408	23,267,347
Local unquoted shares	11,963,271	16,435,138
Foreign unquoted shares	7,086,319	9,328,058
Investment in managed portfolios	17,081,333	2,545,007
Investment funds	<u>189,453</u>	<u>220,279</u>
	<u>75,973,784</u>	<u>51,795,829</u>

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**11. Available for sale investments (continued)**

The movement in the available for sale investments is as follows:

	<u>2013</u>	<u>2012</u>
	KD	KD
<b>Balance at 1 January</b>	51,795,829	49,644,719
Additions during the year	22,593,232	4,819,436
Sale during the year	(2,940,568)	(2,206,907)
Change in fair value	4,525,291	(461,419)
<b>Balance at 31 December</b>	<u>75,973,784</u>	<u>51,795,829</u>

The unquoted investments include investments having a carrying value of KD 2,755,147 (31 December 2012: KD 2,823,033) stated at cost due to the unavailability of reliable sources to determine their fair values. Management studies and cash flow expectations for these investments do not indicate any impairment for these investments.

Quoted and unquoted local shares and investments in managed portfolios with an aggregate carrying value of KD 31,603,700 (31 December 2012: KD 18,507,181) are pledged against due to banks, term loans and murabaha payable (Note 15, 17 and 18).

The investments in managed funds are carried at net asset value provided by the fund managers which represent the best estimate of fair value available for these investments.

During the year, the group recognised an impairment loss of KD 1,831,234 (year ended 31 December 2012: KD 822,084) on certain investments. Management has performed an analysis of the underlying investment which indicates that there is no further impairment.

**12. Investment in associates**

12.1 The details of the group's investment in associates are given below:

	<u>Country of incorporation</u>	<u>Percentage of ownership</u>		<u>Activity</u>
		<u>31 December</u>		
		<u>2013</u>	<u>2012</u>	
		%	%	
Offset Holding Co. KSCC	Kuwait	50.00	50.00	Brokerage
Al Wafir Marketing Services Co. KSCC	Kuwait	26.95	29.77	Real estate
Al Oula Slaughterhouse Co. KSCC	Kuwait	28.89	28.89	Services
Gulf Real Estate Co. W.L.L	Kuwait	20.13	20.13	Real estate
Al Safat House Co. W.L.L	Kuwait	20.00	20.00	Real estate
Hill Property Investment LP*	United Kingdom	84.25	84.25	Real estate
Mansell LP*	United Kingdom	92.94	-	Real estate
Surtees LP*	United Kingdom	96.96	-	Real estate
Hunt Property LP*	United Kingdom	97.84	-	Real estate

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12. Investment in associates (Continued)

12.2 Summarised financial information of group's material associates are set out below:

	Offset Holding Co. KSCC		Al Wafir Marketing Services Co. KSCC		Hill Property Investment LP		Mansell LP		Surtees LP		Hunt Property LP	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Assets	32,896,511	34,791,798	35,126,220	32,516,211	8,653,005	-	4,702,685	-	21,393,241	-	20,732,055	-
Current	5,267,271	7,094,029	5,966,407	1,816,242	322,169	-	204,337	-	1,262,054	-	1,078,499	-
Non-current	27,629,240	27,697,769	29,159,813	30,699,969	8,330,836	-	4,498,348	-	20,131,187	-	19,653,556	-
Liabilities	975,697	746,283	15,407,957	14,493,883	4,957,903	-	2,309,077	-	9,748,410	-	11,652,259	-
Current	580,544	361,278	5,895,960	8,722,687	251,794	-	157,479	-	299,312	-	220,234	-
Non-current	395,153	385,005	9,511,997	5,771,196	4,706,109	-	2,151,598	-	9,449,098	-	11,432,025	-
	31,920,814	34,045,515	19,718,263	18,022,328	3,695,102	-	2,393,607	-	11,644,831	-	-	-
Non-controlling interests	774,244	741,771	-	-	-	-	-	-	-	-	-	-
Net assets	31,146,570	33,303,744	19,718,263	18,022,328	3,695,102	-	2,393,607	-	11,644,831	-	20,732,055	-
Revenue	1,932,178	914,824	5,897,427	6,977,562	440,013	-	187,111	-	1,026,321	-	-	-
Expenses	1,641,852	1,286,318	4,166,829	6,426,137	402,537	-	178,504	-	1,085,567	-	-	-
Net profit/ (loss)	290,326	(371,494)	1,730,598	551,425	37,476	-	8,607	-	(59,246)	-	-	-
Total comprehensive income/(loss)	290,326	(371,494)	1,730,598	551,425	37,476	-	8,607	-	(59,246)	-	-	-
Group' share of results	145,163	(185,747)	188,540	164,159	31,573	-	7,999	-	(57,445)	-	-	-

The remaining associates are considered immaterial to the group.

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**12. Investment in associates (Continued)**

Reconciliation of the above summarised financial information of the associate with the carrying amount in the consolidated statement of financial position is given below:

	<b>Offset Holding Co. KSCC</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2013</b>	<b>2012</b>
	KD	
Net assets of the associate	31,146,570	33,303,744
Group's share of net assets	15,573,285	16,651,872
Goodwill	597,529	597,529
Impairment of associate	(2,404,986)	(2,404,986)
Carrying amount	13,765,828	14,844,415

	<b>Al Wafir Marketing Services Co. KSCC</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2013</b>	<b>2012</b>
	KD	
Net assets of the associate	19,718,263	18,022,328
Group's share of net assets	5,313,514	5,365,284
Goodwill	5,592,857	6,484,421
Carrying amount	10,906,371	11,849,705

	<b>Hill Property Investment LP</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2013</b>	<b>2012</b>
	KD	
Net assets of the associate	3,698,158	-
Group's share of net assets	3,115,698	-
Goodwill	-	-
Carrying amount	3,115,698	-

	<b>Mansell LP</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2013</b>	<b>2012</b>
	KD	
Net assets of the associate	2,393,664	-
Group's share of net assets	2,224,671	-
Goodwill	-	-
Carrying amount	2,224,671	-

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**12. Investment in associates (Continued)**

	<b>Surtees LP</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2013</b>	<b>2012</b>
	KD	KD
Net assets of the associate	11,645,134	-
Group's share of net assets	11,291,122	-
Goodwill	-	-
Carrying amount	11,291,122	-

	<b>Hunt Property LP</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2013</b>	<b>2012</b>
	KD	KD
Net assets of the associate	9,079,742	-
Group's share of net assets	8,883,620	-
Goodwill	-	-
Carrying amount	8,883,620	-

12.3 Set out below is the aggregate information for the individually immaterial associates.

	<b>31 December</b>	<b>31 December</b>
	<b>2013</b>	<b>2012</b>
	KD	KD
<b>Aggregate share in associates' assets and liabilities:</b>		
Assets	3,912,205	6,739,399
Liabilities	28,092	(24,606)
	3,884,113	6,714,793
<b>Aggregate share in associates' results:</b>		
Revenue	306,247	87,470
Profit for the year	228,581	18,137
Group's share of other comprehensive income	-	-
Group's share of total comprehensive income	228,581	18,137
Dividends received from associates	717,601	-

The movement in the investment in associates is as follows:

	<b>31 December</b>	<b>31 December</b>
	<b>2013</b>	<b>2012</b>
	KD	KD
<b>At 1 January</b>	33,408,914	28,166,915
Additions	22,516,609	5,345,990
Disposal (see a below)	(1,131,876)	-
Share of results	1,227,119	(3,451)
Share of other comprehensive income	216	-
Dividends	(717,601)	-
Restatement adjustment in an associate	-	(100,540)
Reduction of an associate's capital (see b below)	(1,223,750)	-
Foreign currency translation of foreign associates	(7,992)	-
<b>At 31 December</b>	54,071,423	33,408,914

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**12. Investment in associates (Continued)**

- (a) During the year, the group partly sold its interest in Al-Wafir Marketing Services Company–KSCC for KD 1,322,188 resulting into a profit of KD 184,625. As a result, the ownership interest in the associate reduced from 29.77% to 26.95%.
- (b) During the year one of the associates, Offset Holding Company – KSC (Holding), reduced its capital by way of settling the amounts due from shareholders.
- (c) All associates are unquoted.

**13 Investment properties**

	<u>Land</u> KD	<u>Building</u> KD	<u>Total</u> KD
<b>Cost</b>			
1 January 2013	1,023,750	1,484,989	2,508,739
31 December 2013	<u>1,023,750</u>	<u>1,484,989</u>	<u>2,508,739</u>
<b>Accumulated depreciation</b>			
1 January 2013	-	499,492	499,492
Charge for the year	-	59,062	59,062
31 December 2013	<u>-</u>	<u>558,554</u>	<u>558,554</u>
<b>Net book value</b>			
<b>31 December 2013</b>	<u>1,023,750</u>	<u>926,435</u>	<u>1,950,185</u>
<b>Fair value as at 31 December 2013</b>	<u>1,071,193</u>	<u>1,553,807</u>	<u>2,625,000</u>
	<u>Land</u> KD	<u>Building</u> KD	<u>Total</u> KD
<b>Cost</b>			
1 January 2012 (restated)	1,023,750	1,484,989	2,508,739
31 December 2012	<u>1,023,750</u>	<u>1,484,989</u>	<u>2,508,739</u>
<b>Accumulated depreciation</b>			
1 January 2012 (restated)	-	440,429	440,429
Charge for the year	-	59,063	59,063
31 December 2012	<u>-</u>	<u>499,492</u>	<u>499,492</u>
<b>Net book value</b>			
<b>31 December 2012</b>	<u>1,023,750</u>	<u>985,497</u>	<u>2,009,247</u>
<b>Fair value as at 31 December 2012</b>	<u>1,436,935</u>	<u>1,383,245</u>	<u>2,820,180</u>

Land is not depreciated. Building is depreciated over 25 years. The fair value of the investment properties is based on independent valuations. The building is mortgaged against term loans (note 17).

The investment property represents the part of building constructed on land rented to third parties, and should be accounted as an investment property under IAS 40.

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14 Property and equipment

	Land	Building	Office equipment and computers	Fixtures and decoration	Computer software	Work in progress	Total
31 December 2013:	KD	KD	KD	KD	KD	KD	KD
<b>Cost</b>							
At 1 January	1,316,250	2,013,562	375,563	276,557	110,476	22,000	4,114,408
Additions	-	-	25,687	13,773	24,324	-	63,784
Disposals	-	(10,992)	(9,501)	(2,378)	-	-	(22,871)
At 31 December	1,316,250	2,002,570	391,749	287,952	134,800	22,000	4,155,321
<b>Accumulated depreciation</b>							
At 1 January	-	663,617	343,262	252,912	65,378	-	1,325,169
Charge for the year	-	80,650	16,459	7,352	13,239	-	117,700
Relating to disposals	-	(2,304)	(8,789)	(2,034)	(54)	-	(13,181)
At 31 December	-	741,963	350,932	258,230	78,563	-	1,429,688
<b>Net book value</b>							
At 31 December	1,316,250	1,260,607	40,817	29,722	56,237	22,000	2,725,633

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14. Property and equipment (Continued)

	Land	Building	Office equipment and computers	Fixtures and decoration	Computer software	Work in progress	Total
	KD	KD	KD	KD	KD	KD	KD
<b>31 December 2012:</b>							
<b>Cost</b>							
At 1 January, as reported	2,340,000	3,500,241	382,830	283,936	89,222	-	6,596,229
Prior year adjustment	(1,023,750)	(1,484,989)	-	-	-	-	(2,508,739)
Closing at 1 January, as restated	1,316,250	2,015,252	382,830	283,936	89,222	-	4,087,490
Additions	-	-	18,617	3,249	21,254	22,000	65,120
Disposals	-	(1,690)	(25,884)	(10,628)	-	-	(38,202)
At 31 December	1,316,250	2,013,562	375,563	276,557	110,476	22,000	4,114,408
<b>Accumulated depreciation</b>							
At 1 January, as reported	-	1,022,935	346,557	243,575	57,505	-	1,670,572
Prior year adjustment	-	(440,429)	-	-	-	-	(440,429)
At 1 January, as restated	-	582,506	346,557	243,575	57,505	-	1,230,143
Charge for the year	-	81,111	22,314	20,336	7,873	-	131,634
Relating to disposals	-	-	(25,609)	(10,999)	-	-	(36,608)
At 31 December	-	663,617	343,262	252,912	65,378	-	1,325,169
<b>Net book value</b>							
At 31 December	1,316,250	1,349,945	32,301	23,645	45,098	22,000	2,789,239

The building is depreciated over 25 years. The building is mortgaged against term loans (note 17).

The estimated useful lives of the group's office equipment, fixtures and decoration for the calculation of depreciation is 4 years, with the exception of its computer software which is depreciated over 3 years. Land is not depreciated.



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**15 Due to banks**

This represents credit facilities granted to the group by a local bank in the form of overdraft facilities. The credit facilities carry interest rate of 4.5 % per annum (31 December 2012: 4.5% per annum) and payable on demand. Credit facilities are granted against pledge of available for sale investments (note 11).

This balance also includes an amount of KD 238,222 (31 December 2012: KD 528,078) due to a bank against the factoring of certain instalment credit debtors (note 7).

**16 Accounts payable and other liabilities**

	<u>31 December</u> <u>2013</u>	<u>31 December</u> <u>2012</u>
	KD	KD
Trade payables	1,043,987	1,173,878
Other payables	2,901,670	1,910,358
Accrued interest	186,849	221,622
Provision for staff leaves	108,668	88,024
KFAS payable	296,535	296,535
NLST payable	2,730,308	2,651,634
Due to shareholders	<u>224,113</u>	<u>225,476</u>
	<u>7,492,130</u>	<u>6,567,527</u>

**17 Term loans**

Term loans are repayable in different periods and bear interest ranging from 4.5% to 5% (31 December 2012: annual rate of 5.5%).

Loans are repayable as follows:

	<u>31 December</u> <u>2013</u>	<u>31 December</u> <u>2012</u>
	KD	KD
Within one year	11,190,000	1,706,800
After one year	<u>4,810,000</u>	<u>-</u>
	<u>16,000,000</u>	<u>1,706,800</u>

During the year, the group had undertaken two new term loans amounting to KD 16,000,000 from local financial institutions. These term loans mature on 30 October 2014 and 15 May 2017 respectively.

Loans are all denominated in Kuwaiti Dinars and are secured by the assignment of instalment credit contracts and pledge of investments at fair value through statement of income, available for sale investments, investment properties and property and equipment (notes 8, 11, 13 and 14).

**18 Murabaha payable**

This represents Islamic financing obtained from a local financial institution, carrying an effective profit rate of 6% (31 December 2012: profit rate of 6%). This financing is secured by way of mortgage of certain investments at fair value through statement of income, available for sale investments and treasury shares (notes 8, 11 and 20).

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**18 Murabaha payable (continued)**

Murabaha payable is due as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	KD	KD
Within one year	1,600,000	1,600,000
After one year	5,200,000	6,800,000
	<u>6,800,000</u>	<u>8,400,000</u>

**19 Share capital and share premium**

As at 31 December 2013, the authorised, issued and paid up share capital of the parent company consists of 802,882,570 shares of 100 fils each (31 December 2012: 802,882,570 shares). All shares are in cash or in kind.

The share premium is non distributable.

**20 Treasury shares**

	<b>31 December 2013</b>	<b>31 December 2012</b>
Number of treasury shares	5,483,436	6,363,449
Percentage of ownership	0.683%	0.793%
Market value (KD)	427,708	445,434
Cost (KD)	597,141	931,786

Reserves of the parent company equivalent to the cost of the treasury shares have been earmarked as non-distributable.

Treasury shares amounting to KD 69,062 (31 December 2012: KD 62,006) are pledged against murabaha payable (note 18).

**21 Reserves**

**Legal reserve**

In accordance with the Companies Law and the parent company's Articles and Memorandum of Association, as amended, 10% of the profit for the year attributed to the owners of the parent company (before contributions to KFAS, NLST, Zakat and directors' remuneration) is required to be transferred to legal reserve. The parent company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital. No transfer is required in a year in which the parent company has incurred a loss or where cumulative losses exist.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

**Voluntary reserve**

The parent company's Articles of Association, as amended require that 10% of the profit for the year attributable to the owners of the parent company (before contributions to KFAS, NLST, Zakat and directors' remuneration) should be transferred to voluntary reserve. There are no restrictions on distribution of voluntary reserve.

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**22 General assembly**

The annual general assembly of the shareholders held on 16 May 2013 approved the consolidated financial statements for the year ended 31 December 2012 without any dividend distribution.

The directors do not propose any dividend for the year ended 31 December 2013.

**23 Income from instalment credit debtors**

	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2012</b>
	KD	KD
Interest income from instalment credit	1,398,797	2,124,174
Discount, commission and fees	216,273	474,016
	<u>1,615,070</u>	<u>2,598,190</u>

**24 Dividend income**

	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2012</b>
	KD	KD
Investments at fair value through statement of income	356,822	302,527
Available for sale investments	966,795	442,168
	<u>1,323,617</u>	<u>744,695</u>

**25 Finance costs**

Finance costs relate to the group's borrowing activities including amounts due to banks, term loans and murabaha payable.

**26 Basic and diluted earnings per share**

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to the owners of the parent company by the weighted average number of shares outstanding during the year excluding treasury shares.

The parent company had no outstanding dilutive potential shares.

	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2012</b>
Profit for the year attributable to owners of the parent company (KD)	<u>2,371,605</u>	<u>121,344</u>
Weighted average number of shares outstanding during the year (excluding treasury shares) – shares	<u>796,502,656</u>	<u>796,510,125</u>
<b>Basic and diluted earnings per share attributable to owners of the parent company – Fils</b>	<u>2.978</u>	<u>0.152</u>

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**27 Net gain / (loss) on financial assets**

Net gain/ (loss) on financial assets, analysed by category, is as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
	KD	KD
Cash and cash equivalents	410,626	249,070
Instalments credit debtors	3,990,575	4,265,487
Investments at fair value through statement of income	111,889	524,239
Held to maturity investment	44,426	28,201
Available for sale investments	474,547	(553,967)
Net realised and unrealised gain	5,032,063	4,513,030
Net unrealised gain directly in equity	5,950,274	636,970
	<u>10,982,337</u>	<u>5,150,000</u>

**28 Fiduciary assets**

Investment portfolios managed by the group and assets held in trust or in a fiduciary capacity and related liabilities are not treated as the group's assets or liabilities and accordingly are not included in the consolidated financial position. Total fiduciary assets as at the financial position date were KD 2,456,041 (31 December 2012: KD 2,089,882).

**29 Segmental information**

Operating segments are identified based on internal management reporting information that is regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance, and is reconciled to group profit or loss.

The group's principal trading activities are carried out within the State of Kuwait and all of the group's assets and liabilities are located in Kuwait in addition to GCC, Middle East and other countries. The group operates in four business segments; instalment credit, investments, real estate and brokerage. The segmental analysis of total income, profit for the year, total assets and total liabilities for the business segments are as follows:

	Instalment credit	Investments	Real estate	Financial brokerage	Total
	KD	KD	KD	KD	KD
<b>Year ended 31 December 2013</b>					
Total revenue	4,094,033	4,640,191	346,444	635,056	9,628,338
Profit for the year	<u>1,373,926</u>	<u>448,466</u>	<u>277,744</u>	<u>167,168</u>	<u>2,267,304</u>
<b>As at 31 December 2013</b>					
Total assets	23,203,042	123,003,648	6,399,514	19,009,103	171,615,307
Total liabilities	20,529,972	9,525,319	-	3,462,410	33,517,701
Net assets	<u>2,673,070</u>	<u>113,478,329</u>	<u>6,399,514</u>	<u>15,546,693</u>	<u>138,097,606</u>
<b>Year ended 31 December 2012</b>					
Total revenue/(loss)	4,257,013	1,462,231	(11,636)	224,397	5,932,005
Profit/(loss) for the year	<u>1,721,979</u>	<u>(266,903)</u>	<u>(70,701)</u>	<u>(1,746,059)</u>	<u>(361,684)</u>
<b>As at 31 December 2012</b>					
Total assets	34,480,352	75,863,145	7,845,969	19,798,172	137,987,638
Total liabilities	5,463,829	13,160,294	-	3,287,720	21,911,843
Net assets	<u>29,016,523</u>	<u>62,702,851</u>	<u>7,845,969</u>	<u>16,510,452</u>	<u>116,075,795</u>

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**30 Related party transactions**

Related parties represent associates, major shareholders, directors and key management personnel of the group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the group's management. Transactions between the parent company and its subsidiaries which are related parties of the parent company have been eliminated on consolidation and are not disclosed in this note.

Details of significant related party transactions and balances are as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	KD	KD
<b>Consolidated statement of financial position</b>		
Instalment credit debtors-gross (note 7)	3,148,937	13,379,803
Due from related parties	108,920	182,106
Due to shareholders (note 16)	224,113	225,476
Due to related parties	271,060	2,222,582
<b>Year ended 31 December</b>		
	<b>2013</b>	<b>2012</b>
	KD	KD
<b>Consolidated statement of income</b>		
Reversal of provision for instalment credit debtors	-	281,974
Interest from instalment credit debtors	708,363	1,038,611
Gain on sale of investment in associate	184,625	-
Gain on sale of available for sale investments	461,241	-
Gain on sale of properties held for trading	48,712	-
Provision for doubtful debts	603,019	-
<b>Key management compensation:</b>		
Salaries and other short term benefits	335,298	318,440
End of service benefits	34,492	29,806

**31 Risk management objectives and policies**

The group's activities expose it to variety of financial risks: market risk, credit risk and liquidity risk.

The parent company's board of directors sets out policies for reducing each of the risks discussed below.

The group does not use derivative financial instruments, for speculative purposes.

The most significant financial risks to which the group is exposed are described below.

**31.1 Market risk**

**a) Foreign currency risk**

The group mainly operates in the GCC, other Middle Eastern countries and Europe and is exposed to foreign currency risk arising from various foreign currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

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**31. Risk management objectives and policies (Continued)**

**31.1 Market risk (continued)**

**a) Foreign currency risk (continued)**

To mitigate the group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored in accordance with the group's risk management policies. Generally, the group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows.

The group had the following net significant exposures denominated in foreign currencies, translated into Kuwaiti Dinar at the closing rate:

	<u>31 December 2013</u>	<u>31 December 2012</u>
US Dollar	8,192,741	8,178,928
Lebanese Lira	6,431,914	6,873,410
GBP	4,582,070	2,371,704
Egyptian Pound	1,586,873	1,605,081
UAE Dirham	136,883	282,164
Bahraini Dinar	201,148	558,641
Saudi Riyal	(7,908)	773,358
Euro	-	130,655
Omani Riyal	38,099	46,434
Jordanian Dinar	843,507	849,817
South African Rand	(27,730)	(22,833)

The following table details the group's sensitivity to a 2% (2012: 2%) increase and decrease in the KD against above foreign currencies. The sensitivity analysis includes only outstanding foreign currencies denominated monetary assets and liabilities and adjusts their translation at the year end for a 2% change in foreign currency rates. A positive number below indicates an increase in profit and equity and a negative number indicates decrease in profit and equity. All other variables are held constant. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

	<u>+2 % Impact</u>	<u>+2 % Impact</u>	<u>-2 % Impact</u>	<u>-2 % Impact</u>
	<u>31 December 2013</u>	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
	KD	KD	KD	KD
Profit/(loss) for the year	297,826	247,569	(297,826)	(247,569)
Equity	141,726	185,378	(141,726)	(185,378)

**b) Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. As the group is not exposed to a significant interest rate risk on interest bearing assets, the group is exposed to interest rate risk with respect to its borrowings which are both at fixed rate and floating interest rate. The risk is managed by the group by maintaining an appropriate mix between fixed and floating rate borrowings. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

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**31. Risk management objectives and policies (Continued)**

**31.1 Market risk (continued)**

**b) Interest rate risk (continued)**

Positions are monitored on a daily basis and hedging strategies used, if required, to ensure positions are maintained within established limits.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The group's interest rate exposure based on earlier of contractual repricing arrangements and maturity at 31 December 2013 was as follows:

	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing items	Total	Effective interest rate (%)
	KD	KD	KD	KD	KD	KD	
<b>Assets</b>							
Cash and cash equivalents	8,947,736	3,114,410	-	-	-	12,062,146	1.75
Instalment credit debtors	1,897,046	1,752,484	3,703,183	2,101,553	-	9,454,266	3-9
Investments at fair value through statement of income	-	-	-	-	-	-	-
Held to maturity investment	-	-	283,050	-	8,120,193	8,120,193	-
Accounts receivable and other assets	-	-	-	-	-	283,050	15
Due from related parties	-	-	-	-	5,016,378	5,016,378	-
	<u>10,844,782</u>	<u>4,866,894</u>	<u>3,986,233</u>	<u>2,101,553</u>	<u>108,920</u>	<u>108,920</u>	-
					<u>13,245,491</u>	<u>35,044,953</u>	
<b>Liabilities</b>							
Due to banks	2,374,655	-	-	-	-	2,374,655	4.5
Accounts payable and other liabilities	-	-	-	-	-	-	-
Due to related parties	-	-	-	-	7,492,130	7,492,130	-
Term loans	2,000,000	4,000,000	5,190,000	4,810,000	271,060	271,060	-
Murabaha payable	800,000	-	800,000	5,200,000	-	16,000,000	4.5-5
Provision for end of service indemnity	-	-	-	-	-	6,800,000	6
	<u>5,174,655</u>	<u>4,000,000</u>	<u>5,990,000</u>	<u>10,010,000</u>	<u>579,856</u>	<u>579,856</u>	-
					<u>8,343,046</u>	<u>33,517,701</u>	

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**31. Risk management objectives and policies (Continued)**

**31.1 Market risk (continued)**

**b) Interest rate risk (continued)**

The group's interest rate exposure based on earlier of contractual repricing arrangements and maturity at 31 December 2012 was as follows:

	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non- interest bearing items	Total	Effective interest rate
	KD	KD	KD	KD	KD	KD	(%)
<b>Assets (restated)</b>							
Cash and cash equivalents	5,718,071	2,788,792	-	-	-	8,506,863	1.75
Instalment credit debtors	918,184	1,011,110	16,889,044	4,302,159	-	23,120,497	3-9
Investments at fair value through statement of income	-	-	-	-	7,626,053	7,626,053	-
Held to maturity investment	-	-	283,050	-	-	283,050	15
Accounts receivable and other assets	-	-	-	-	5,029,119	5,029,119	-
Due from related parties	-	-	-	-	182,106	182,106	-
	<u>6,636,255</u>	<u>3,799,902</u>	<u>17,172,094</u>	<u>4,302,159</u>	<u>12,837,278</u>	<u>44,747,688</u>	
<b>Liabilities (restated)</b>							
Due to banks	2,040,297	101,891	346,873	30,219	-	2,519,280	4.5
Accounts payable and other liabilities	-	-	-	-	6,567,527	6,567,527	-
Due to related parties	-	-	-	-	2,222,582	2,222,582	-
Term loans	-	426,700	1,280,100	-	-	1,706,800	5.5
Murabaha payable	800,000	-	800,000	6,800,000	-	8,400,000	6
Provision for end of service indemnity	-	-	-	-	495,654	495,654	-
	<u>2,840,297</u>	<u>528,591</u>	<u>2,426,973</u>	<u>6,830,219</u>	<u>9,285,763</u>	<u>21,911,843</u>	

The following table illustrates the sensitivity of the result for the year to a reasonably possible change in interest rates of +1% and -1% (2012: +1% and -1%) with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market condition. The calculations are based on the group's financial instruments held at each financial position date. All other variables are held constant.

	31 December 2013		31 December 2012	
	+1%	-1%	+1%	-1%
	KD	KD	KD	KD
Profit/(loss) for the year	(33,752)	33,752	192,843	(192,843)
Equity	(33,752)	33,752	192,843	(192,843)



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**31. Risk management objectives and policies (Continued)**

**31.1 Market risk (continued)**

**c) Price risk**

The group is exposed to equity price risk with respect to its equity investments. Equity investments are classified either as investments at fair value through statement of income (including trading securities), and available for sale investments.

To manage its price risk arising from investments in equity securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the consolidated financial statements date.

If equity prices had been 10% higher/lower, the effect on the profit/(loss) for the year and equity for the years ended 31 December 2013 and 2012 would have been as follows:

	Profit/(loss) for the year		Equity	
	31 December	31 December	31 December	31 December
	2013	2012	2013	2012
	KD	KD	KD	KD
Investments at fair value through statement of income	±812,019	±762,605	±812,019	±762,605
Available for sale investments	-	-	±7,597,378	±5,179,583

**31.2 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group's credit policy and exposure to credit risk is monitored on an ongoing basis. The group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities. It also obtains security when appropriate.

The group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the financial position date, as summarised below:

	31 December	31 December
	2013	2012 (restated)
	KD	KD
Cash and cash equivalents	12,062,146	8,506,863
Instalment credit debtors	9,454,266	23,120,497
Investments at fair value through statement of income (note 8)	5,910,407	6,071,685
Held to maturity investment	283,050	283,050
Accounts receivable and other assets	5,016,378	5,029,119
Due from related parties	108,920	182,106
<b>Total</b>	<b>32,835,167</b>	<b>43,193,320</b>

Information on other significant concentrations of credit risk is set out in note 31.3.

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**31. Risk management objectives and policies (Continued)**

**31.3 Concentration of assets**

The distribution of assets by geographic region was as follows:

	<u>Kuwait</u>	<u>GCC</u>	<u>Other Middle Eastern countries</u>	<u>USA, Europe and other</u>	<u>Total</u>
	KD	KD	KD	KD	KD
<b>At 31 December 2013</b>					
Cash and cash equivalents	7,312,605	394,296	3,905,833	449,412	12,062,146
Instalment credit debtors	4,218,754	-	5,235,512	-	9,454,266
Investments at fair value through statement of income	7,928,896	-	191,297	-	8,120,193
Held to maturity investment	-	-	-	283,050	283,050
Accounts receivable and other assets	412,750	69,649	3,602,241	931,738	5,016,378
Due from related parties	52,759	-	56,161	-	108,920
Properties held for trading	-	1,635,265	-	214,064	1,849,329
Available for sale investments	68,887,465	782,097	108,125	6,196,097	75,973,784
Investment in associates	28,556,312	-	-	25,515,111	54,071,423
Investment properties	1,950,185	-	-	-	1,950,185
Property and equipment	2,589,228	10,226	126,179	-	2,725,633
<b>Total</b>	<u>121,908,954</u>	<u>2,891,533</u>	<u>13,225,348</u>	<u>33,589,472</u>	<u>171,615,307</u>

	<u>Kuwait</u>	<u>GCC</u>	<u>Other Middle Eastern countries</u>	<u>USA, Europe and other</u>	<u>Total</u>
	KD	KD	KD	KD	KD
<b>At 31 December 2012 (restated)</b>					
Cash and cash equivalents	3,051,181	1,878	5,110,337	343,467	8,506,863
Instalment credit debtors	17,277,271	-	5,843,226	-	23,120,497
Investments at fair value through statement of income	7,361,521	-	264,532	-	7,626,053
Held to maturity investment	-	-	-	283,050	283,050
Accounts receivable and other assets	842,105	-	1,859,312	2,327,702	5,029,119
Due from related parties	28,672	-	153,434	-	182,106
Properties held for trading	-	2,981,767	-	254,955	3,236,722
Available for sale investments	42,514,238	1,897,738	137,857	7,245,996	51,795,829
Investment in associates	30,384,581	-	-	3,024,333	33,408,914
Investment properties	2,009,247	-	-	-	2,009,247
Property and equipment	2,634,577	-	154,662	-	2,789,239
	<u>106,103,393</u>	<u>4,881,383</u>	<u>13,523,360</u>	<u>13,479,503</u>	<u>137,987,639</u>

**31.4 Liquidity risk**

Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

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**31. Risk management objectives and policies (Continued)**

**31.4 Liquidity risk (continued)**

The table below summarises the maturity profile of the group's assets and liabilities. The maturities of assets and liabilities have been determined on the basis of the remaining period from the financial position date to the contractual maturity date. The maturity profile for available for sale investments is determined based on management's estimate of liquidation of those investments.

Maturity profile of assets and liabilities at 31 December 2013:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Sub-total Up to 1 year KD	Over 1 year KD	Total KD
<b>ASSETS</b>						
Cash and cash equivalents	8,947,736	3,114,410	-	12,062,146	-	12,062,146
Instalment credit debtors	1,897,046	1,752,484	3,703,183	7,352,713	2,101,553	9,454,266
Investments at fair value through statement of income	8,120,193	-	-	8,120,193	-	8,120,193
Held to maturity investment	-	-	283,050	283,050	-	283,050
Accounts receivable and other assets	139,122	3,508,355	1,353,959	5,001,436	14,942	5,016,378
Due from related parties	-	-	108,920	108,920	-	108,920
Properties held for trading	-	-	1,849,329	1,849,329	-	1,849,329
Available for sale investments	-	-	-	-	75,973,784	75,973,784
Investment in associates	-	-	-	-	54,071,423	54,071,423
Investment properties	-	-	-	-	1,950,185	1,950,185
Property and equipment	-	-	-	-	2,725,633	2,725,633
<b>Total assets</b>	<u>19,104,097</u>	<u>8,375,249</u>	<u>7,298,441</u>	<u>34,777,787</u>	<u>136,837,520</u>	<u>171,615,307</u>
<b>LIABILITIES</b>						
Due to banks	2,374,655	-	-	2,374,655	-	2,374,655
Accounts payable and other liabilities	1,086,018	3,135,647	441,939	4,663,604	2,828,526	7,492,130
Due to related parties	-	-	271,060	271,060	-	271,060
Term loans	2,000,000	4,000,000	5,190,000	11,190,000	4,810,000	16,000,000
Murabaha payable	800,000	-	800,000	1,600,000	5,200,000	6,800,000
Provision for end of service indemnity	-	-	-	-	579,856	579,856
<b>Total liabilities</b>	<u>6,260,673</u>	<u>7,135,647</u>	<u>6,702,999</u>	<u>20,099,319</u>	<u>13,418,382</u>	<u>33,517,701</u>

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**31. Risk management objectives and policies (Continued)**

**31.4 Liquidity risk (continued)**

Maturity profile of assets and liabilities at 31 December 2012:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Sub-total Up to 1 year KD	Over 1 year KD	Total KD
<b>ASSETS (restated)</b>						
Cash and cash equivalents	5,718,070	2,788,793	-	8,506,863	-	8,506,863
Instalment credit debtors	918,184	1,011,110	16,889,044	18,818,338	4,302,159	23,120,497
Investments at fair value through statement of income	7,626,053	-	-	7,626,053	-	7,626,053
Held to maturity investment	-	-	283,050	283,050	-	283,050
Accounts receivable and other assets	743,839	1,757,993	225,768	2,727,600	2,301,518	5,029,119
Due from related parties	-	-	182,106	182,106	-	182,106
Properties held for trading	-	-	3,236,722	3,236,722	-	3,236,722
Available for sale investments	-	-	-	-	51,795,829	51,795,829
Investment in associates	-	-	-	-	33,408,914	33,408,914
Investment properties	-	-	-	-	2,009,247	2,009,247
Property and equipment	-	-	-	-	2,789,239	2,789,239
<b>Total assets</b>	<u>15,006,146</u>	<u>5,557,896</u>	<u>20,816,690</u>	<u>41,380,732</u>	<u>96,606,906</u>	<u>137,987,639</u>
<b>LIABILITIES (restated)</b>						
Due to banks	2,040,297	101,891	346,873	2,489,061	30,219	2,519,280
Accounts payable and other liabilities	347,409	2,158,077	1,410,407	3,915,893	2,651,634	6,567,527
Due to related parties	-	-	2,222,582	2,222,582	-	2,222,582
Term loans	-	426,700	1,280,100	1,706,800	-	1,706,800
Murabaha payable	800,000	-	800,000	1,600,000	6,800,000	8,400,000
Provision for end of service indemnity	-	-	-	-	495,654	495,654
<b>Total liabilities</b>	<u>3,187,706</u>	<u>2,686,668</u>	<u>6,059,962</u>	<u>11,934,336</u>	<u>9,977,507</u>	<u>21,911,843</u>

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**31. Risk management objectives and policies (Continued)**

**31.4 Liquidity risk (continued)**

The contractual maturity profile of the financial liabilities based on undiscounted cash flow is as follows:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Sub-total Upto 1 year KD	Over 1 year KD	Total KD
<b>31 December 2013</b>						
<b>Financial liabilities</b>						
Due to banks	2,434,655	-	-	2,434,655	-	2,434,655
Accounts payable and other liabilities	1,086,018	3,135,647	441,939	4,663,604	2,828,526	7,492,130
Due to related parties	-	-	271,060	271,060	-	271,060
Term loans	2,065,397	4,092,042	5,754,523	11,911,962	6,361,664	18,273,626
Murabaha payable	827,014	50,137	1,009,041	1,886,192	5,220,658	7,106,850
Provision for end of service indemnity	-	-	-	-	579,856	579,856
	<u>6,413,084</u>	<u>7,277,826</u>	<u>7,476,563</u>	<u>21,167,473</u>	<u>14,990,704</u>	<u>36,158,177</u>
<b>31 December 2012 (restated)</b>						
<b>Financial liabilities</b>						
Due to banks	2,160,794	101,891	346,873	2,609,558	30,219	2,639,777
Accounts payable and other liabilities	347,409	2,158,077	1,410,407	3,915,893	2,651,634	6,567,527
Due to related parties	-	-	2,222,582	2,222,582	-	2,222,582
Term loans	-	441,360	1,315,715	1,757,075	-	1,757,075
Murabaha payable	843,381	76,208	1,123,178	2,042,767	7,168,219	9,210,986
Provision for end of service indemnity	-	-	-	-	495,654	495,654
	<u>3,351,584</u>	<u>2,777,536</u>	<u>6,418,755</u>	<u>12,547,875</u>	<u>10,345,726</u>	<u>22,893,601</u>

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**32 Summary of financial assets and liabilities by category**

The carrying amounts of the group's financial assets and liabilities as stated in the consolidated statement of financial position may also be categorised as follows:

	<b>31 December 2013</b>	<b>(Restated) 31 December 2012</b>
	KD	KD
<b>Financial assets:</b>		
<i>Loans and receivables at amortised cost:</i>		
Cash and cash equivalents	12,062,146	8,506,863
Instalments credit debtors	9,454,266	23,120,497
Accounts receivable and other assets	5,016,378	5,029,119
Due from related parties	108,920	182,106
<i>Held to maturity investments at amortised cost:</i>		
Held to maturity investment	283,050	283,050
<i>Investments at fair value through statement of income:</i>		
Investments at fair value through statement of income	8,120,193	7,626,053
<i>Available for sale investments:</i>		
Available for sale investments	73,218,637	48,972,796
<b>Total</b>	<b>108,263,590</b>	<b>93,720,483</b>
<b>Financial liabilities:</b>		
<i>Financial liabilities at amortised cost</i>		
Due to banks	2,374,655	2,519,280
Accounts payable and other liabilities	7,492,130	6,567,527
Due to related parties	271,060	2,222,582
Term loans	16,000,000	1,706,800
Murabaha payable	6,800,000	8,400,000
Provision for end of service indemnity	579,856	495,654
<b>Total</b>	<b>33,517,701</b>	<b>21,911,843</b>

Fair value represents 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.

In the opinion of management, except for certain available for sale investments which are carried at cost for reasons specified in note 11 to these consolidated financial statements, the carrying amounts of financial assets and liabilities as at 31 December 2013 approximate their fair values.

**Financial instruments measured at fair value**

The following table presents financial assets and liabilities measured at fair value in the consolidated statement of financial position in accordance with the fair value hierarchy.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

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**32. Summary of financial assets and liabilities by category (Continued)**

**Financial instruments measured at fair value (continued)**

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value on a recurring basis in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

**31 December 2013**

	<u>Level 1</u> KD	<u>Level 2</u> KD	<u>Level 3</u> KD	<u>Total</u> KD
<b>Investments at fair value through statement of income:</b>				
Local quoted shares	2,018,491	-	-	2,018,491
Foreign quoted shares	191,595	-	-	191,595
Investment in managed portfolios	5,910,407	-	-	5,910,407
<b>Available for sale investments:</b>				
Local quoted shares	39,653,408	-	-	39,653,408
Local unquoted shares	-	-	24,128,543	24,128,543
Foreign unquoted shares	-	-	5,809,600	5,809,600
Investment in managed portfolios	3,437,633	-	-	3,437,633
Investment funds	-	189,453	-	189,453
	<u>51,211,534</u>	<u>189,453</u>	<u>29,938,143</u>	<u>81,339,130</u>

**31 December 2012**

	<u>Level 1</u> KD	<u>Level 2</u> KD	<u>Level 3</u> KD	<u>Total</u> KD
<b>Investments at fair value through statement of income:</b>				
Local quoted shares	1,289,837	-	-	1,289,837
Foreign quoted shares	264,531	-	-	264,531
Investment in managed portfolios	6,071,685	-	-	6,071,685
<b>Available for sale investments:</b>				
Local quoted shares	23,267,347	-	-	23,267,347
Local unquoted shares	-	-	15,684,745	15,684,745
Foreign unquoted shares	-	-	7,255,418	7,255,418
Investment in managed portfolios	2,545,007	-	-	2,545,007
Investment funds	-	220,279	-	220,279
	<u>33,438,407</u>	<u>220,279</u>	<u>22,940,163</u>	<u>56,598,849</u>

There have been no transfers between levels during the reporting period.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the inter-relationship between key unobservable inputs and fair value, are set out below.

32. Summary of financial assets and liabilities by category (Continued)

**Available for sale investments:**

The group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations, where required. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

The valuation techniques used for instruments categorised in Levels 2 and 3 are described below:

Certain unquoted equity securities are valued based on book value and price to book multiple method using latest financial statements available of the investee entities.

Other unquoted equity securities are valued using cash flow projections based on financial estimates approved by senior management. The growth rates used to arrive at the terminal value ranged from 2% to 3%. Further the revenue growth projections are based on the assessment of the future business growth.

*Key assumptions used in fair value calculations*

The calculation of fair value is most sensitive to the following assumptions:

- Discount rates;
- Growth rates used to extrapolate cash flows beyond the budget period;
- Local inflation rates.

*Discount rates*

Discount rates are calculated by using risk free rate, equity market risk premium, beta factor and company specific risk premium (alpha factor).

*Market share assumptions*

These assumptions, as well as use of industry data for growth rates, are important as the entity's relative position to its competitors might change over the budget period.

*Projected growth rates and local inflation rates*

Assumptions are based on references from published industry research reports.

Funds and managed portfolios have been valued based on Net Asset Value (NAV) of the fund provided by the fund manager.

Gains or losses recognised in the consolidated statement of income for the year are included in on loss on sale of available for sale investments.

Changing inputs to the level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognised in the consolidated statement of income, total assets, total liabilities or total equity.

There were no changes to the valuation techniques during the year.

**Fair value measurements**

The group measurement of financial assets and liabilities classified in level 3 uses valuation techniques inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:



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**32. Summary of financial assets and liabilities by category (Continued)**

**Fair value measurements (continued)**

	<u>31 December 2013</u>	<u>31 December 2012</u>
	KD	KD
Opening balance	22,940,163	10,379,625
Change in fair value	(1,801,307)	8,980,977
Additions during the year:		
- Purchases	<u>8,799,287</u>	<u>3,579,561</u>
Closing balance	<u>29,938,143</u>	<u>22,940,163</u>
Total amount included in consolidated statement of income for unrealised gains on level 3 assets	<u>-</u>	<u>-</u>

Changing inputs to the level 3 valuations to reasonably possible alternative assumption would not change significantly amounts recognised in profit or loss, total assets or total liabilities or total equity.

***Non-financial instruments***

Investment properties were fair valued at 31 December 2013 and are classified under level 3 fair value hierarchy and reconciliation is provided in note 13.

***Description of significant unobservable inputs to valuation of non-financial assets:***

Fair value of investment properties were determined using Mark to Market method, conducted by valuers considering transaction prices of the property and similar properties. The significant unobservable valuation input used for the purpose of valuation is the market price per square foot / meter and varies from property to property. A reasonable change in this input would result in an equivalent amount of change in fair value.

**33 Capital risk management**

The group's capital management objectives are to ensure the group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimisation of the capital structure.

The group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the group consists of the following:

	<u>31 December 2013</u>	<u>31 December 2012</u>
	KD	KD
Due to banks (note 15)	2,374,655	2,519,280
Term loans (note 17)	16,000,000	1,706,800
Murabaha payable (note 18)	6,800,000	8,400,000
Less: Cash and cash equivalents (note 6)	<u>(12,062,146)</u>	<u>(8,506,863)</u>
Net debt	<u>13,112,509</u>	<u>4,119,217</u>
Equity	<u>127,389,282</u>	<u>113,503,526</u>
Net debt to equity ratio	10.29%	3.63%