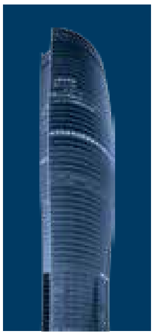


# Corporate Governance Report & Financial Statements 2018

كيبكو
KIPCO
شركة مشاريع الكويت (القابضة)
Kuwait Projects Company (Holding)

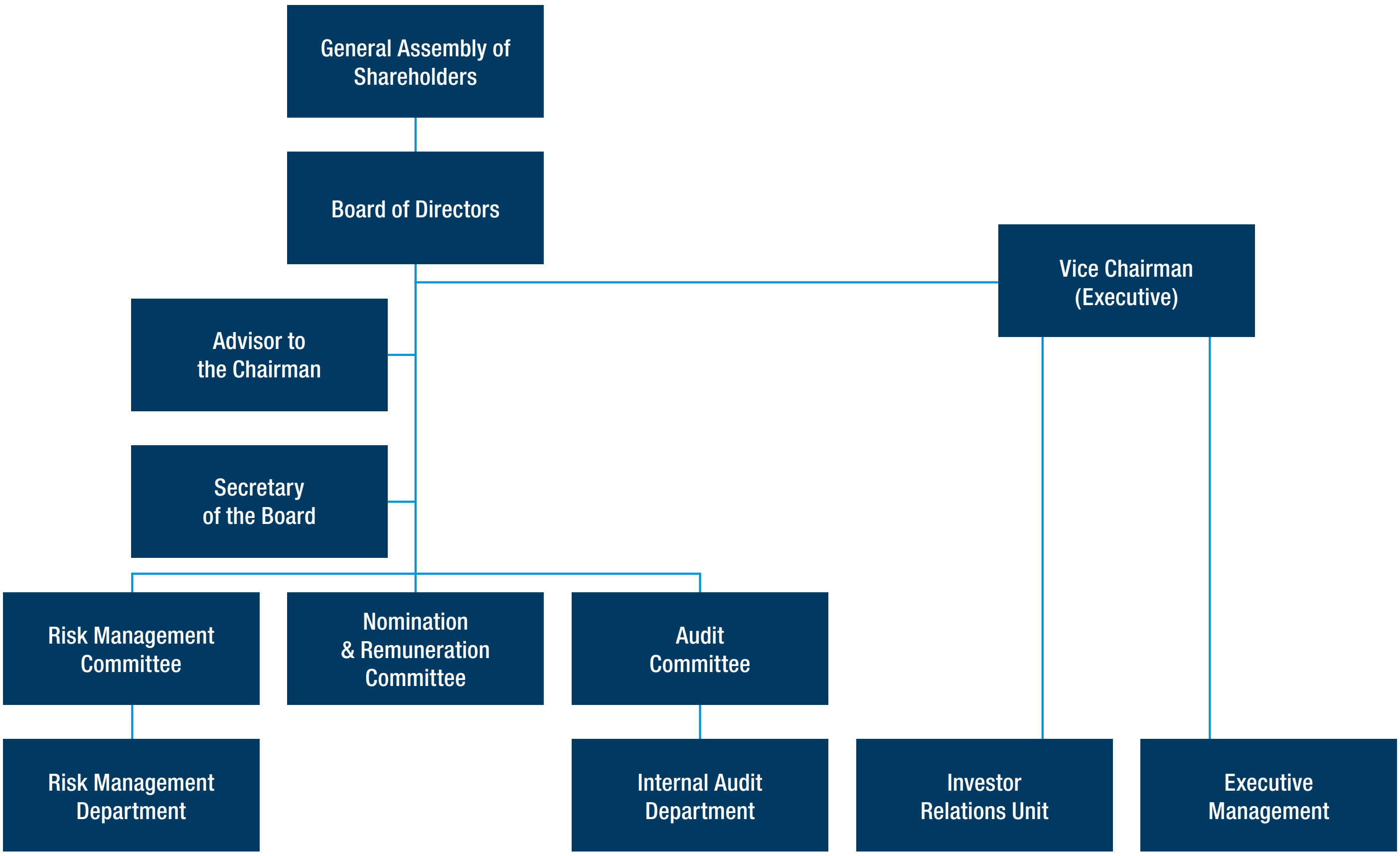
# KIPCO Corporate Governance Report 2018

## Introduction:

Kuwait Projects Company (Holding) – KIPCO – seeks to adhere to the highest standards and best practices to ensure sound corporate governance activities, in line with the corporate governance framework for listed companies. The principles of corporate governance have been put in place to support the company in its strive to achieve sustainable development and protect the interests of its shareholders. KIPCO outlines its corporate governance guidelines in its corporate governance guide, endorsed by the Board of Directors in line with Module 15 of the CMA amended bylaws. Corporate governance is an integral part of KIPCO's culture.

KIPCO holds its Annual 'Shafafiyah' Transparency Investors' Forum following the company's Annual General Assembly. The forum sheds light on the results of the previous year and presents an outlook for the coming one. Questions from shareholders, financial analysts and representatives of the media are answered, and a live webcast of the event is broadcast on KIPCO's website. KIPCO is the first listed company in Kuwait to hold such an annual forum for investors.

## KIPCO's corporate governance framework:



## A brief on the formation of the Board of Directors, as follows:

KIPCO's Board of Directors comprises five members, the majority of whom are non-executives, one independent member and one executive member. The Board of Directors elects the Chairman and Vice Chairman in a secret ballot. The Board of Directors reviews the formation of the Board in line with the CMA Law and the Companies' Law.

| Name | Membership | Qualifications & experience | Election date/ Appointment of Board Secretary |
|---|---|---|---|
| Sheikh Hamad Sabah Al Ahmad Al Sabah | Chairman | Sheikh Hamad Al Sabah holds several positions in local and international companies, among them are:<br>▪ Chairman of the Saudia Dairy & Foodstuff Company (SADAFCO) – Saudi Arabia<br>▪ Chairman of Gulf Egypt Hotels & Tourism Company – Egypt<br>▪ Chairman of Masharea Al Khair Charity Organization – Kuwait<br><br>Sheikh Hamad Al Sabah studied in Kuwait, Lebanon and the USA. He has dedicated his time and effort to developing KIPCO and making it one of the largest groups in the region, with investments in many sectors including banking, media, real estate, industry and education.<br><br>Sheikh Hamad Al Sabah founded the Masharea Al Khair Charity Organization to which the KIPCO Group companies make contributions, and which supports projects in Kuwait of medical and social nature, especially people with special needs. | April 5, 2017 |
| Mr Faisal Hamad Al Ayyar | Vice Chairman (Executive) | Mr Faisal Al Ayyar is Executive Vice Chairman of the Kuwait Projects Company (Holding). He joined KIPCO in 1990 when it was a US$ 220 million regional investment company. Under his stewardship, KIPCO has developed into one of MENA's leading holding companies with interests in financial services, media, real estate, manufacturing and education, operations in 24 countries and consolidated assets of over US$ 32 billion. Of note is his leading role in the creation and development of OSN, the region's largest pay-TV company, the development of SADAFCO, a leading dairy and foodstuff producer in Saudi Arabia, and the expansion and subsequent sale of Wataniya Telecom, a major regional mobile operator.<br><br>Mr Faisal Al Ayyar currently holds several positions in local and international companies, among them are:<br>▪ Chairman of Panther Media Group (OSN) – Dubai, UAE<br>▪ Vice Chairman of Saudia Dairy & Foodstuff Company (SADAFCO) – Saudi Arabia<br>▪ Vice Chairman of Gulf Insurance Group – Kuwait<br>▪ Vice Chairman of United Gulf Bank – Bahrain<br>▪ Vice Chairman of United Gulf Holding Company – Bahrain<br>▪ Vice Chairman of Jordan Kuwait Bank – Jordan<br>▪ Vice Chairman of Masharea Al Khair Charity Organization – Kuwait<br>▪ Board Member of Gulf Egypt Hotels & Tourism Company – Egypt<br>▪ Board of Trustees Member of the American University of Kuwait – Kuwait<br>▪ Honorary Chairman of the Kuwait Association for Learning Differences – Kuwait<br><br>Mr Al Ayyar began his career as a fighter pilot with the Kuwait Air Force. Honors include the Arab Bankers Association of North America's 2005 Achievement Award, the Tunis Arab Economic Forum and the Beirut Arab Economic Forum 2007 Achievement Awards and the Kuwait Economic Forum 2009 Award for his contribution to the investment sector and successes in the global financial market. | April 5, 2017 |

| | | | |
|---|---|---|---|
| Mr Abdullah Yacoub Bishara | Independent | Mr Abdullah Bishara held several positions in his political career as a diplomat:<br>■ 1960: Joined the Kuwaiti diplomatic corps<br>■ 1964-1971: Director of the Foreign Minister's Office<br>■ 1971-1981: Kuwait's Ambassador to the United Nations<br>■ 1979: Chairman of the Security Council<br>■ 1981-1993: Secretary General of the Gulf Cooperation Council<br>■ Member of the GCC Advisory Board since 1998<br>■ Board Member of Saudia Dairy & Foodstuff Company (SADAFCO) – Saudi Arabia<br>■ Advisor to research centers, a columnist and a lecturer in diplomacy and strategy<br>■ President of Diplomatic Center for Strategic Studies<br>■ Coordinator of the Kuwaiti-British Friendship Society<br><br>Mr Bishara graduated from Cairo University's College of Arts in 1959 and studied at Oxford University between 1961 and 1962. He studied diplomacy and foreign relations in the USA and received his Master's degree in Political Sciences in 1973. | April 5, 2017 |
| Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah | Non-Executive | Sheikh Abdullah Nasser Al Sabah currently holds several positions in Kuwait. They are:<br>■ Chairman of KAMCO Investment Company – Kuwait<br>■ Vice Chairman of Al Daiya Real Estate Company – Kuwait<br>■ Board Member of United Gulf Bank – Bahrain<br><br>Sheikh Abdullah Al Sabah is a graduate of the Royal Military Academy, UK. He holds a Bachelor's degree in Business Administration from the New York Institute of Technology, USA. | April 5, 2017 |
| Sheikha Futtouh Nasser Sabah Al Ahmad Al Sabah | Non-Executive | Sheikha Futtouh Nasser Al Sabah is a Board Member of Kuwait Projects Company (Holding) since 2017.<br><br>She holds a Bachelor in International Relations from Webster University – Geneva, and a Masters in Middle and Near East Studies from SOAS University – London. | April 5, 2017 |
| Khaled Abdul Jabbar Al Sharrad | Secretary of the Board | Mr Khaled Al Sharrad is KIPCO's Group Chief HR and Admin Officer. He is a Board Member in several companies in Kuwait, among them are:<br>■ Chairman of IKARUS United Marine Services – Kuwait<br>■ Board Member of Kuwait Furniture Manufacturing Company (KUFUMA) – Kuwait<br>■ Board Member of the Kuwait Association for Learning Differences – Kuwait<br><br>Mr Al Sharrad holds a BA degree from St. Edwards University in Austin, Texas, and is a certified professional in personnel management from the Royal Institute of Public Administration – London. | April 5, 2017 |

KIPCO's Board of Directors and its committees held meetings in 2018 in line with the requirements of the CMA's corporate governance framework, as per the following table:

**Meetings of KIPCO's Board of Directors and its committee in 2018**

| Board Member | Board of Directors meetings | Audit Committee meetings | Risk Management Committee meetings | Nomination & Remuneration Committee meetings |
|---|---|---|---|---|
| Sheikh Hamad Sabah Al Ahmad Al Sabah – Chairman | 6 of 6 | - | - | - |
| Mr Faisal Hamad Al Ayyar – Vice Chairman (Executive) | 6 of 6 | - | 5 of 5 | 3 of 3 |
| Mr Abdullah Yacoub Bishara – Independent | 6 of 6 | 5 of 5 | 5 of 5 | 3 of 3 |
| Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah – Non-Executive | 6 of 6 | 5 of 5 | 5 of 5 | 3 of 3 |
| Sheikha Futtouh Nasser Sabah Al Ahmad Al Sabah – Non-Executive | 6 of 6 | 5 of 5 | - | - |

The company is managed by an elected Board of Directors, which is formed as per the company's bylaws that outline the number of members and their tenure. The Board Members have the experience necessary to perform their duties in an effective manner in the interest of the company. They dedicate sufficient time and attention to their duties as Board Members, in line with the roles outlined in the company's Board of Directors charter and memorandum of association.

The Board of Directors is committed to putting in place a corporate governance framework and a mechanism for its implementation with the highest integrity, conduct and professionalism in the best interest of shareholders and stakeholders.

The company outlined the duties and authorities of the Board of Directors and the Executive Management through the approval of the Board of Directors charter and authority matrix. The following is a summary of the delegated authorities:

- **Authorization from the Board of Directors to its committees (Committees of the Board of Directors):** The Board of Directors, through specific decisions made during its meetings, has established committees comprising Board Members. It has delegated to them some authority in areas related to each committee's specific bylaws and role.

  The Board of Directors reviews on an annual basis the terms of reference for each committee. In the event that any committee's activities are suspended, the delegated authority automatically returns to the Board.

- **Authorization from the Board of Directors to the Chairman:** The Board of Directors has delegated to the Chairman the authority of the Board. The Chairman is the legal representative of the Board. In the Chairman's absence, the Vice Chairman (Executive) performs the duties of the Chairman.

- **Authorization from the Chairman to the Vice Chairman:** The Chairman has delegated to the Vice Chairman some of the authorities and responsibilities of the Board of Directors. This includes, but is not limited to, monitoring and supervising the Executive Management to ensure that it is operating accordingly to approved policies and procedures, placing performance standards to ensure target achievement, and outlining the company's strategies.

- **Authorization from the Board to the Executive Management:** The Board of Directors has delegated to the Executive Management all roles and responsibilities listed within their roles and responsibilities. The Board retains the right to delegate additional duties or rescind any authority that has been given to the Executive Management.

The main achievements of the Board of Directors in 2018 are:

- Reviewing the company's goals, strategies, plans and policies.
- Approval of the estimated annual budget, the quarterly and annual financial statements.
- Application of the corporate governance framework and active supervision of its implementation in line with the CMA Law.
- Supervising the performance of the Executive Management team.
- Implementing the mechanism for dealing with related parties and eliminating conflict of interest.
- Ensuring the effectiveness of internal policies and the general framework for risk management on a periodic basis.
- Reviewing and approving the company's policies and procedures.

The Secretary of the Board provides the Board Members with sufficient information about the articles on the agenda at least three days before the meeting, in order to allow them to make suitable decisions. The Secretary also takes note of all discussions between the Board Members during the meetings and records them in a dated and number referenced minutes of meeting. The minutes of meeting indicates the Board Members in attendance and their votes on decisions made during the meetings. The Secretary ensures that the reports related to the Board's activities, documents and agenda are distributed and delivered to the Members in a timely manner. Furthermore, the Secretary enables the Board Members to have access to all information, documents and records related to the Group, and ensures that this information is maintained in an organized manner to allow for timely access by Board and Committee Members. The company's Executive Management provides the Board and its Committees with all required documents and information through a solid and modern information structure that provides periodic reports to allow for making decisions in a suitable and timely manner.

# Formation of Board of Director's Committees:

KIPCO's Board of Directors formed committees in line with the CMA Law and its bylaws, as well as the corporate governance framework. The committees meet regularly in line with regulations, with full legal quorum, and the committee secretary takes down minutes of meetings that includes the decisions made by the committee.

| Committee | Formation date & tenure | Members | Duties & achievements during the year |
|---|---|---|---|
| Audit Committee | The Board of Directors formed the Audit Committee as recorded in the minutes of meeting number 3/2017, dated 5/4/2017. The tenure was set in parallel with that of the Board of Directors (three years). | ▪ Mr Abdullah Yacoub Bishara (Committee Chairman)<br>▪ Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah (Member)<br>▪ Sheikha Futtouh Nasser Sabah Al Ahmad Al Sabah (Member) | ▪ Review periodic and annual financial statements to ensure their soundness and integrity, and refer them to the Board for approval.<br>▪ Make recommendations to the Board on the appointment of external auditors and monitor their performance.<br>▪ Study accounting policies and provide recommendations to the Board.<br>▪ Evaluate the efficiency and effectiveness of the internal control system and prepare a report thereto.<br>▪ Supervise the company's Internal Audit Department.<br>▪ Ensure the company's compliance with related laws, policies and instructions and review the reports of the regulatory authorities<br>▪ Appointing an independent auditor to prepare the Internal Control Review Report for 2018, in line with the CMA's requirements in relation to corporate governance.<br>▪ Prepare the Audit Committee Report and present it to the Board for approval and reading at the company's General Assembly. |
| Nomination & Remuneration Committee | The Board of Directors formed the Nomination & Remuneration Committee as recorded in the minutes of meeting number 3/2017, dated 5/4/2017. The tenure was set in parallel with that of the Board of Directors (three years). | ▪ Mr Abdullah Yacoub Bishara (Committee Chairman)<br>▪ Mr Faisal Hamad Al Ayyar (Member)<br>▪ Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah (Member) | ▪ Making recommendations to the Board on nominations of Executive Management.<br>▪ Reviewing the policy for the remuneration of Board Members and Executive Management.<br>▪ Reviewing the job descriptions for the Executive, Non-Executive and Independent Board Members.<br>▪ Ensuring the independency of Independent Members.<br>▪ Preparing annual reports that contain overall remunerations granted to Board Members and the Executive Management. |
| Risk Management Committee | The Board of Directors formed the Risk Management Committee as recorded in the minutes of meeting number 3/2017, dated 5/4/2017. The tenure was set in parallel with that of the Board of Directors (three years). | ▪ Mr Abdullah Yacoub Bishara (Committee Chairman)<br>▪ Mr Faisal Hamad Al Ayyar (Member)<br>▪ Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah (Member) | ▪ Assisting the Board of Directors in putting in place suitable strategies and goals for risk management, and making recommendations that are in line with the nature and size of the company's activities.<br>▪ Reviewing risk management strategies and policies before they are endorsed by the Board of Directors, and ensuring the implementation of these strategies and policies in line with the natural and size of the company's activities.<br>▪ Assessing the systems and mechanisms of internal supervision to determine and observe the different risks that the company may encounter.<br>▪ Assisting the Board of Directors in determining and assessing the acceptable level of risk, to ensure that that the company does not go beyond that level after Board approval. |

## Report on the remunerations granted to the Board Members and Executive Management:

### Board remunerations:

Board remunerations are subject to the approval of the General Assembly in its annual meeting, based on the recommendation of the Nomination & Remuneration Committee.

The overall proposed remuneration for the Board Members is KD 220,000 for 2018. This is in addition to KD 120,000 granted to a Non-Executive Board Member in compensation for consultative services.

### Executive Management remunerations:

The remuneration system for the Executive Management is linked to the company's performance and the achievement of long-term growth goals. It is in line with the size, nature and level of risk related to each position. The remunerations include a fixed sum that includes salaries, bonuses and other incentives, as well as a variable sum that includes stocks options and other variable bonuses.

The following table outlines the remunerations granted to the Executive Management in 2017.

| KD thousand | Fixed remunerations | Variable remunerations | Total |
|---|---|---|---|
| Members of the Executive Management (14 members)* | 3,547 | 702 | 4,249 |

* Includes the fees of the Vice Chairman, for supervising the Executive Management

## Ensuring the integrity of financial statements:

- The Executive Management pledges to the Board of Directors that KIPCO's financial statements have been presented soundly and justly, and that these statements include all aspects of the company's financial activities. The financial statements have been prepared in accordance with international financial reporting standards approved by the CMA and other regulatory authorities.
- Similarly, KIPCO's Board of Directors pledges that it is presenting the company's financial statements in a sound, just and accurate manner to shareholders and investors.

## Independence and objectivity of the external auditor:

An auditor is appointed with the approval of the General Assembly, following a recommendation from the Board of Directors. During the Annual General Assembly held on April 4, 2018, the shareholders appointed Ernst & Young and RSM Albazie as the external auditors for the financial year 2018. Ernst & Young and RSM Albazie are qualified and completely independent from the company and the Board of Directors. The external auditor executes an annual independent audit and a quarterly review, with the aim of ensuring that the financial statements are being prepared in line with international financial reporting standards approved by Kuwait's regulatory authorities.

## Risk management:

An independent risk management unit was established and its policies were approved by the Board of Directors based on a recommendation by the Risk Management Committee. Risk management is a main requirement for sound corporate governance. It represents the joint responsibility of the company's management and that of its employees, such that they understand the importance of risk management and carry out their duties in line with the general risk management framework. This serves to assist the management in supporting sound corporate governance and achieving sound practices in general.

## Internal control and supervision systems:

KIPCO's Board of Directors is responsible for internal control and reviewing its effectiveness in safeguarding assets, maintaining sound financial statements, and revealing mistakes and violations. The Board is committed to reviewing the Audit Committee report on outcomes of internal control activities and periodic reports on supervisory activities. Internal control also includes placing a clear organization structure, documenting policies and procedures, allocating authorities and delegation, and performance monitoring mechanisms that are established to oversee the company's operations effectively and regularly.

The company has implemented an internal control system to reasonably guarantee the effectiveness of operations. This includes internal control regulations, including those related to financial and operational activities, as well as adhering to laws and regulations. The Board of Directors regularly reviews these procedures through its main committees, and the effectiveness of the controls is reviewed from time to time as per the company's flow of operations. Related regular reports are presented to the Audit Committee.

## Internal Audit Department:

- The Internal Audit Department sets the audit policies and procedures that help the company implement corporate governance through the continuous assessment of Management's implementation of the internal control system and assessing the internal control means and procedures to provide recommendations to improve them in order to maintain the efficiency and effectiveness of internal processes. As such, the Board of Directors has delegated to the Internal Audit Department, through the Audit Committee, the related duties and responsibilities. The Internal Audit Department enjoys complete technical autonomy and reports to the Board's Audit Committee.
- One of the KIPCO Internal Audit Department's most important responsibilities is providing the Board and Executive Management with an independent and objective opinion on the internal controls in place, the necessary guarantees to support the company's activities, enhancing the effectiveness of controls, risk management and corporate governance operations.
- The independence of the Internal Audit Department is vital to the success of its audit assignments. Therefore, the Internal Audit Department presents its reports to the Board's Audit Committee. The Audit Committee approves the Internal Audit Department structure, charter, policies and plans, risk assessment methodology, and assess the department's achievements and performance.

## Professional conduct and ethical values:

The charter of professional conduct and ethics is an important part of governance for KIPCO, and both the Board of Directors and the Executive Management are keen on adherence to this charter as part of the Group's daily operations. This includes dealing with employees and all third parties. The charter is revised periodically to ensure that it keeps up with updates and developments in the area of governance and professional conduct. The Board oversees the effective implementation of the charter with regards to all audit and internal control activities to determine any gaps and take measures to manage them.

## Conflict of interest:

The company's policy and procedures of conflict of interest have been put in place in line with CMA requirements. The policy outlines that the company is committed to carrying out its activities in a just, honest and sound manner in the interest of maintaining good, long-term interests with stakeholders. The policy helps guarantee that no individual will abuse any deal or transaction the company is party to. The Audit Committee is generally responsible for this policy, and this responsibility includes overseeing and reviewing the implementation of the basic procedures and regulations outlined in the policy.

## Accurate disclosure and transparency:

The disclosure and transparency policy is periodically reviewed by the Audit Committee before it is approved by the Board of Directors. The company adheres to all disclosure requirements, where current and potential stakeholders require accurate information in a timely manner and with clarity. This is to allow for comparison in order to assess the company's performance, type of ownership, management proficiency, including administrative and operational information. The stakeholders can thus oversee their interests and their decision-making is made easier. The purpose of this policy is to increase accountability within the company and Management towards stakeholders in general, in the form of providing accurate and relevant information that allows stakeholders to understand the governance, strategy, policies, activities and practices of the company and therefore assess its performance with ease. The company discloses fundamental information on a regular basis, in line with the legal and organizational requirements. The policy also aims to put in place a mechanism that prevents insider trading through timely and comprehensive market disclosures.

## Register of disclosures by Board Members and Executive Management:

The company has established a special updated register for disclosures by Board Members and the Executive Management regarding holding or dealing with the company's shares in Boursa Kuwait, in line with CMA requirements with regards to dealings by insiders.

## IT infrastructure development for disclosures:

The company develops the information technology infrastructure on a regular basis to ensure that all shareholders, investors and stakeholders can obtain the updated information and data they need in a timely manner. This allows them to exercise their rights through the company's website, which includes access to detailed information about the company and its Board of Directors and Executive Management, as well as the company's main activities and financial statements. The website also includes a section on Corporate Governance and Disclosures, listed under Investor Relations.

## Investor Relations Unit:

As part of KIPCO's commitment to work closely with its shareholders, the company prepared an Investor Relations policy that has been approved by the Board of Directors. It has also put in place a clear set of policies regulating investor relations, thereby allowing them access to company documents and necessary information in a timely manner, and this information is updated periodically. Access is granted through several means, including the company's website which includes important information for shareholders.

## Shareholder equity:

The Board of Directors and the Executive Management declare that it is their responsibility to represent the interests of all shareholders and increase value. The Board of Directors guarantees the respect of shareholder equity, in a manner that achieves justice and equality as per the related laws, regulations and policies and the company's memorandum of association.

It also encourages communication with shareholders through active participation in the Ordinary and Extraordinary General Assemblies, giving them the full right to vote on items on the agenda, with each shareholder holding a number of votes equal to the number of shares they own. Shareholders who do not attend have the right to vote through proxy. KIPCO holds its Annual 'Shafafiyah' Transparency Investors' Forum, during which it presents its shareholders with a summary of the previous year's activities and achievements, and gives an overview of future outlooks for the company.

## Shareholder registry:

The shareholder registry is maintained by Kuwait Clearing Company, which is responsible for keeping the registry. Shareholders have the right to review the registry, in line with the procedures and laws set by Kuwait Clearing Company.

## Stakeholder rights:

The company applies clear procedures in the management of transparency, open dialogue and communication with stakeholders. The stakeholder policy was updated and approved by the Board of Directors during the year, showing commitment to the basic dealings with stakeholders.

Below is a summary of the main responsibilities towards stakeholders, which in turn encourages their participation and engagement in the company's activities:

- Developing open and transparent communication channels directly with stakeholders through the website.
- Overseeing the activities of the company with efficiency, integrity and effectiveness.
- Dealing with stakeholders directly and clearly, with respect and honesty.
- Respecting the laws and regulations.

## Training programs for the Board of Directors and Executive Management:

The policies and procedures related to training Board Members and the Executive Management aim to develop skills and increase knowledge. The purpose of this policy is to train the Board Members and Executive Management and to acquaint them with the latest in the areas of administration, finance, economy and corporate governance, as well as risk management and any updates to relevant laws and regulations.

The performance of the Board of Directors, its Members, Committees and the Executive Management is done through main performance indicators. These are tools to measure financial and non-financial development, or the performance of the company and its advancement towards achieving its goals. These indicators can also be used in all types of reports to assess the effectiveness of the Board and Management in achieving their targets.

The main performance indicators for the Board of Directors and the Executive Management Team cover the development taking place in the main strategic performance and operational indices for the Board Members and the Executive Management team. They provide basic information about the nature of these main performance indicators, propose means to develop these indicators and quantitative ways to analyze them. The methodology for placing a performance indicator system is as follows:

1. Determining the need
2. Determining the stakeholders
3. Determining who is responsible
4. Selecting the main performance indicators required
5. Preparing measurable indicators
6. Using the main performance indicators
7. Reviewing the main performance indicator assessment system

## Corporate value creation:

The company established a culture of abiding by rules and regulations in the interest of growing corporate values, development, achieving the company's strategic goals, and enhancing the performance levels through:

- Enhancing brand value and raising the level of trust of stakeholders, partners, societies and governments in the company.
- Allowing group work, where everyone dedicates their efforts to achieving the company's common goals.
- Encouraging self-monitoring and providing protection that exceeds that from external supervision alone.
- Increasing employees' confidence in themselves, where they understand work values and introduce them to others.
- Having a sense of professional responsibility and high professionalism, which motivates employees to show sound professional conduct.
- Spreading the concept of adherence to laws and regulations, which helps employees work in an environment of high performance discipline and commitment to regulations.

## Corporate social responsibility:

KIPCO is a leading company in Kuwait, and as such it gives back to the society and seeks its development through focusing on corporate social responsibility. KIPCO's CSR practices focus on three main areas related to social and individual development, and they are education, the development of young people and health. There are many activities and initiatives that KIPCO and its Group companies have supported. This includes the Kuwait Association for Learning Differences (KALD), which is an NGO that works with children who have learning difficulties.

KIPCO also holds its annual CSR forum, Sharakah, in collaboration with the Kuwait Foundation for the Advancement of Sciences (KFAS). The forum brings together NGOs and civil societies to attend six workshops over the course of three days, presented by local and international CSR experts. This forum helps societies build their own capacity and develop the means through which they serve their humanitarian and charitable causes. It is also an opportunity to bring these organizations in contact with large private sector companies and organizations that contribute to society.

The company also supports youth activities and initiatives, where KIPCO and its Group companies have been supporting The Protégés mentorship program through a ten-year strategic partnership that began in 2013. Other youth programs that KIPCO is involved in is the partnership with INJAZ-Kuwait to increase work readiness among students, and the KIPCO Tmkeen Award for Young Entrepreneurs launched in 2015 to support the growing number of young business owners.

In 2018, KIPCO launched an online titled "Athar", an initiative that highlighted four chosen SME's over the span of six months. One SME will win the chance to take part in a learning hub coordinated with one of KIPCO's subsidiaries.

KIPCO also received an Advertising Creativity Award at the Arab Media Forum due to its contribution during the year for its community activities.

KIPCO participated in supporting women through Women Empowerment Programs such as the Kuwait Distinguished Women Award (KDWA) which recognizes and celebrates the role that women play in supporting and achieving growth and development in their own communities, at home, and around the world. This award has been designed in alignment with Kuwait State Vision 2035, the goals (KDWA) and objectives of the Kuwait National Development Plan (KNDP), and the Sustainable Development Goals Agenda 2030. The participation of KIPCO supports this award through its seat on the judging panel and representing the private sector in highest committee.

For more information about the company's CSR activities, please visit csr.kipco.com

# Consolidated Financial Statements

31 December 2018

EY
Building a better working world

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18–21st Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
ey.com/mena

RSM
RSM Albazie & Co.
Arraya Tower 2, Floors 41 & 42
Abdulaziz Hamad Alsaqar St., Sharq
P.O. Box 2115, Safat 13022, State of Kuwait
T +965 22961000
F +965 22412761
www.rsm.global/kuwait

**INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS OF KUWAIT PROJECTS COMPANY HOLDING K.S.C.P.**

**Report on the Audit of the Consolidated Financial Statements**

*Opinion*

We have audited the consolidated financial statements of Kuwait Projects Company Holding K.S.C.P. (the “Parent Company”) and its subsidiaries (collectively the “Group”), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Basis for Opinion*

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

*Key Audit Matters*

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT PROJECTS COMPANY HOLDING K.S.C.P. (continued)**

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

*Key Audit Matters (continued)*

*Expected credit losses (ECL) on loans and advances*
Loans and advances of the Group's commercial banking subsidiaries represent a significant part of the total assets. The implementation of IFRS 9: *Financial Instruments* (IFRS 9) significantly changed the approach to determine the provisions against financial assets and incorporated a more forward-looking approach to determine the recoverability of the financial assets. IFRS 9 replaced the 'incurred loss' approach under IAS 39: Financial Instruments – Recognition and Measurement (IAS 39) with a forward looking ECL approach. Under IFRS 9, ECL are recognised on initial recognition based on expectations of potential credit losses at the time of initial recognition, and then continuously remeasured to reflect changes to the credit risk characteristics.

This forward looking approach requires the management to make judgements and assumptions regarding the counterparties to assess the level of ECL to be recognised against the credit exposures. Because of the complexity of requirements under IFRS 9, significance of judgements applied and the Group's exposure to loans and advances forming a major portion of the Group's assets, ECL for loans and advances is considered as a key audit matter.

As part of our audit of the commercial banking subsidiaries our audit procedures included:

- Gaining an understanding of the Group's key credit processes comprising granting, booking, monitoring and provisioning and testing the operating effectiveness of key controls over these processes;

- We obtained the understanding of the design and tested the operating effectiveness of relevant controls over ECL model, including model build and approval, ongoing monitoring / validation, model governance and arithmetical accuracy. We have also checked completeness and accuracy of the data used and the reasonableness of the management assumptions;

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT PROJECTS COMPANY HOLDING K.S.C.P. (continued)**

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

*Key Audit Matters (continued)*

*Expected credit losses (ECL) on loans and advances (continued)*

- We understood and assessed the significant modeling assumptions for exposures as well as overlays with a focus on:
  - Key modeling assumptions adopted by the Group; and
  - Basis for and data used to determine overlays.

- We assessed:
  - the Group's IFRS 9 based impairment provisioning policy including significant increase in credit risk criteria with the requirements of IFRS 9;
  - the Group's ECL modeling techniques and methodology against the requirements of IFRS 9; and
  - the soundness of the Group's loan grading processes and mathematical integrity of the models.

- For a sample of exposures, we performed procedures to evaluate:
  - Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL;
  - Timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging; and
  - ECL calculation.

- For forward looking information used by the Group's management in its ECL calculations, we held discussions with management and checked internal approvals by management for the economic outlook used for purposes of calculating ECL.

We further considered the adequacy of the disclosures in the consolidated financial statements in relation to impairment of loans and advances as required under IFRS 9. Refer to the critical accounting estimates and judgements and disclosures of loans and advances in Note 2.7 and 4 to the consolidated financial statements.

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RSM Albazie & Co.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT PROJECTS COMPANY HOLDING K.S.C.P. (continued)**

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

*Key Audit Matters (continued)*

*Impairment testing of investment in associates*
The Group has interests in number of associates which are significant to the Group's consolidated financial statements. The Group's carrying value of its investments in Qurain Petrochemical Industries Company K.S.C.P. ("QPIC"), Gulf Insurance Group K.S.C.P. ("GIG") and Advance Technology Company K.S.C.P. ("ATC") are significantly higher than the proportion of equity attributable to Group's ownership interest in these associates. Significant management judgement is required in determining the investment's recoverable amount based on its value-in-use. The projected future cash flows and discount rates used by the Group in determining the investment's value-in-use are subject to estimation uncertainty and sensitivity. Therefore, we considered this as a key audit matter.

Our audit procedures included, amongst others:

- We involved our valuation specialists to assist us in assessment of the Group's methodology and testing the key assumptions used by the Group to calculate value-in-use of the investments in associates.
- We evaluated the reasonableness of the cash flow projections and considered the appropriateness of key inputs such as long-term growth rates used to extrapolate these cash flows and the discount rate and compared these to available external data.

We also assessed the adequacy of the Group's disclosure in Note 8 of the consolidated financial statements.

*Impairment testing of goodwill and intangible assets*
Impairment testing of goodwill and intangible assets performed by the management was significant to our audit because the assessment of the recoverable amount of goodwill and intangible assets under the value-in-use basis is complex and requires considerable judgment on the part of management. Estimates of future cash flows are based on management's views of variables such as the interest margins, discount rates, market share assumptions, projected growth rates and economic conditions such as the economic growth and expected inflation rates. We considered this area to be as key audit matter.

Our audit procedures included, amongst others:

- We involved our valuation experts to assist us in evaluating the appropriateness of the valuation model and testing key assumptions used in the impairment analysis, such as the discount rate and terminal growth rate.
- We also evaluated the sensitivity analyses performed by management around key assumptions noted above and challenged the outcomes of the assessment.

Furthermore, we assessed the adequacy of the Group's disclosures included in Note 10 of the consolidated financial statements related to those assumptions. The Group's policy on impairment testing is disclosed in Note 2 of the consolidated financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT PROJECTS COMPANY HOLDING K.S.C.P. (continued)**

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

*Key Audit Matters (continued)*

*Valuation of investment properties*
Investment properties are significant to the Group's consolidated financial statements. The management determines the fair value of its investment properties and uses external appraisers to support the valuation. The valuation of the investment properties at fair value is highly dependent on estimates and assumptions, such as average net initial yield, reversionary yield, inflation rate, vacancy rates, growth in rental rates, market knowledge and historical transactions. Given the size and complexity of the valuation of investment properties and the importance of the disclosures relating to the assumptions used in the valuation, we considered this as a key audit matter.

Our audit procedures included, amongst others:
- We evaluated the quality and objectivity of the valuation process and the independence and expertise of external appraisers. We also evaluated the accuracy of the property data provided by the Group to the external appraisers, which are used as input for the purpose of valuations.
- We have assessed the appropriateness and reasonableness of the valuation methodologies, key assumptions and estimates used in the valuations on a sample basis, based on evidence of comparable market transactions and other publicly available information of the property industry.

We further evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions on the fair value of investment properties. We also assessed the adequacy of the disclosures relating to the assumptions and sensitivity of such assumptions in Note 9 of the consolidated financial statements.

*Valuation of derivative financial instruments*
The Group has significant derivative financial instruments, the valuation of which is determined through the application of valuation techniques, which often involve the exercise of judgement and the use of assumptions and estimates. Due to the significance of derivative financial instruments and the related estimation uncertainty, this was considered as a key audit matter.

Our audit procedures included, amongst others:
- We involved our valuation specialists to assist us in evaluation of the methodologies, inputs and assumptions used by the Group in determining the fair values of the derivative financial instruments.
- We challenged inputs used to externally available market data to assess whether appropriate assumptions were used in the valuation.
- We also compared valuations derived from our internal valuation model, for a sample of instruments, to the fair values determined by the Group.

Further we evaluated the adequacy of the Group's disclosures in Note 27 in the consolidated financial statements about the valuation basis and inputs used in the fair value measurement.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT PROJECTS COMPANY HOLDING K.S.C.P. (continued)**

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

*Other information included in the Group's 2018 Annual Report*

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

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

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

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

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

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

Those Charged with Governance are responsible for overseeing the Group's financial reporting process.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT PROJECTS COMPANY HOLDING K.S.C.P. (continued)**

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

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

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

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

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

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

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

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT PROJECTS COMPANY HOLDING K.S.C.P. (continued)**

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

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

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

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

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

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

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT PROJECTS COMPANY HOLDING K.S.C.P. (continued)**

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018, that might have had a material effect on the business of the Parent Company or on its financial position.

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

NAYEF M. AL-BAZIE
LICENCE NO. 91 A
RSM ALBAZIE & CO.

21 March 2019
Kuwait

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

| | Notes | ***2018 KD 000's*** | *2017 KD 000's (Restated)** |
|---|---|---|---|
| **ASSETS** | | | |
| Cash in hand and at banks | 3 | **2,118,768** | 1,569,565 |
| Treasury bills, bonds and other debt securities | | **726,459** | 646,675 |
| Loans and advances | 4 | **4,635,327** | 5,240,825 |
| Financial assets at fair value through profit or loss | 5 | **265,065** | 35,355 |
| Financial assets available for sale | 6 | **-** | 514,103 |
| Financial assets held to maturity | | **-** | 77,597 |
| Financial assets at fair value through other comprehensive income | 6 | **253,684** | - |
| Other assets | 7 | **467,941** | 447,200 |
| Properties held for trading | | **97,709** | 91,564 |
| Investment in associates | 8 | **329,482** | 375,305 |
| Investment in a media joint venture | 31 | **-** | 177,863 |
| Investment properties | 9 | **625,409** | 522,946 |
| Property, plant and equipment | | **334,670** | 316,624 |
| Intangible assets | 10 | **328,493** | 329,517 |
| Assets held for sale | 31 | **187,304** | - |
| **TOTAL ASSETS** | | **10,370,311** | 10,345,139 |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Due to banks and other financial institutions | | **2,059,005** | 2,014,071 |
| Deposits from customers | | **4,887,603** | 5,129,200 |
| Loans payable | 12 | **695,211** | 503,140 |
| Bonds | 13 | **472,974** | 321,229 |
| Medium term notes | 14 | **664,980** | 660,381 |
| Other liabilities | 15 | **579,903** | 505,036 |
| **Total liabilities** | | **9,359,676** | 9,133,057 |
| **Equity** | | | |
| Share capital | 16 | **154,725** | 147,357 |
| Share premium | 16 | **3,111** | 3,111 |
| Treasury shares | 16 | **(86,111)** | (85,312) |
| Statutory reserve | 16 | **106,821** | 106,821 |
| Voluntary reserve | 16 | **106,546** | 106,546 |
| Cumulative changes in fair values | | **(6,271)** | 737 |
| Foreign currency translation reserve | | **(97,046)** | (78,172) |
| Employee stock option plan reserve | 17 | **1,535** | 1,597 |
| Other reserve | | **(14,172)** | (1,621) |
| Retained earnings | | **107,925** | 238,211 |
| **Equity attributable to equity holders of the Parent Company** | | **277,063** | 439,275 |
| Perpetual capital securities | 16 | **146,440** | 146,440 |
| Non controlling interest | | **587,132** | 626,367 |
| **Total equity** | | **1,010,635** | 1,212,082 |
| **TOTAL LIABILITIES AND EQUITY** | | **10,370,311** | 10,345,139 |

Faisal Hamad Al Ayyar
Vice Chairman (Executive)

** Certain amounts shown here do not correspond to the consolidated financial statements as at 31 December 2017 and reflect adjustments made as detailed in Note 2.*

The attached notes 1 to 32 form part of these consolidated financial statements.

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

| | Notes | 2018 KD 000's | 2017 KD 000's |
|---|---|---|---|
| **Continuing operations:** | | | |
| **Income:** | | | |
| Interest income | | **445,206** | 386,469 |
| Investment income | 18 | **36,575** | 70,899 |
| Fees and commission income | 19 | **60,852** | 52,995 |
| Share of results of associates | | **18,413** | 12,756 |
| Digital satellite network services income | | **13,599** | 14,193 |
| Educational service income | | **26,981** | - |
| Hospitality and real estate income | | **109,398** | 93,740 |
| Manufacturing and distribution income | | **21,135** | 24,657 |
| Other income | | **30,382** | 18,050 |
| Foreign exchange gain | | **11,827** | 12,030 |
| **Income** | | **774,368** | 685,789 |
| **Expenses:** | | | |
| Interest expense | | **297,830** | 248,121 |
| Digital satellite network services expense | | **10,782** | 10,668 |
| Hospitality and real estate expense | | **82,601** | 66,757 |
| Educational service expenses | | **16,013** | - |
| Manufacturing and distribution expense | | **19,653** | 21,285 |
| General and administrative expenses | 20 | **192,391** | 184,750 |
| Depreciation and amortization | | **20,555** | 22,125 |
| **Expenses** | | **639,825** | 553,706 |
| **Operating profit from continuing operations before provisions and Directors' remuneration** | | **134,543** | 132,083 |
| Provision for credit losses | 4&26 | **(7,838)** | (22,467) |
| Provision for impairment of other financial & non-financial assets | | **(9,330)** | (1,115) |
| Board of Directors' remuneration | 23 | **(220)** | (220) |
| **Profit before taxation from continuing operations** | | **117,155** | 108,281 |
| Taxation | 21 | **(10,395)** | (15,604) |
| **Profit for the year from continuing operations** | | **106,760** | 92,677 |
| **Discontinued operations:** | | | |
| Loss from discontinued operations | 31 | **(22,968)** | (30,179) |
| **Profit for the year** | | **83,792** | 62,498 |
| **Attributable to:** | | | |
| Equity holders of the Parent Company | | **28,279** | 23,572 |
| Non controlling interest | | **55,513** | 38,926 |
| | | **83,792** | 62,498 |
| | | ***Fils*** | *Fils* |
| **EARNINGS PER SHARE:** | | | |
| **Basic – attributable to equity holders of the Parent Company** | 22 | **15.01** | 11.51 |
| **Diluted – attributable to equity holders of the Parent Company** | 22 | **15.01** | 11.51 |
| **EARNINGS PER SHARE FOR CONTINUING OPERATIONS:** | | | |
| **Basic - attributable to the equity holders of the Parent Company** | 22 | **31.40** | 32.89 |
| **Diluted - attributable to the equity holders of the Parent Company** | 22 | **31.40** | 32.89 |

The attached notes 1 to 32 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

| | ***2018*** <br> ***KD 000's*** | *2017* <br> *KD 000's* |
|---|---|---|
| **Profit for the year** | **83,792** | 62,498 |
| **Other comprehensive income** | | |
| *Items that will not be reclassified subsequently to consolidated income statement:* | | |
| Net change in fair value of equity instruments at fair value through other comprehensive income | **(27,604)** | - |
| Share of other comprehensive income from associates and joint venture | **(1,286)** | - |
| | **(28,890)** | - |
| *Items that are or will be reclassified subsequently to consolidated income statement:* | | |
| Debt instruments at fair value through other comprehensive income: | | |
| Net change in fair value during the year | **(3,786)** | - |
| Changes in allowance for expected credit losses | **(43)** | - |
| Net transfer to consolidated income statement | **1,405** | - |
| Financial assets available for sale: | | |
| Net fair value loss | - | (1,422) |
| Net transfer to consolidated income statement | - | (1,780) |
| Changes in fair value of cash flow hedge | **3,472** | 1,657 |
| Net foreign currency translation adjustment | **(25,937)** | (20,640) |
| Share of other comprehensive income from associates and joint venture | - | 3,265 |
| | **(24,889)** | (18,920) |
| **Other comprehensive loss for the year** | **(53,779)** | (18,920) |
| **Total comprehensive income for the year** | **30,013** | 43,578 |
| **Attributable to:** | | |
| Equity holders of the Parent Company | **(7,173)** | 14,205 |
| Non controlling interest | **37,186** | 29,373 |
| | **30,013** | 43,578 |

The attached notes 1 to 32 form part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

| | Notes | **2018** KD 000's | 2017 KD 000's |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before taxation from continuing operations | | **117,155** | 108,281 |
| Loss from discontinued operation | 31 | **(22,968)** | (30,179) |
| Profit before taxation | | **94,187** | 78,102 |
| *Adjustments to reconcile profit before taxation to net cash flows:* | | | |
| Interest income | | **(445,206)** | (386,469) |
| Investment income | 18 | **(36,575)** | (70,899) |
| Share of results of associates | | **(18,413)** | (12,756) |
| Interest expense | | **297,830** | 248,121 |
| Depreciation and amortization | | **20,555** | 22,125 |
| Provision for credit losses | 4&26 | **7,838** | 22,467 |
| Provision for impairment of other financial & non-financial assets | | **9,330** | 1,115 |
| Share of results from discontinued operation | 31 | **22,968** | 30,179 |
| Foreign exchange loss (gain) on loans payable and medium-term notes | | **2,901** | (3,101) |
| Provision for employee stock option plan | 17 | **738** | 822 |
| | | **(43,847)** | (70,294) |
| Changes in operating assets and liabilities: | | | |
| Deposits with original maturities exceeding three months | | **5,716** | (6,830) |
| Treasury bills and bonds | | **139,632** | 28,576 |
| Loans and advances | | **320,536** | 21,991 |
| Financial assets at fair value through profit or loss | | **(34,300)** | 32,221 |
| Financial assets available for sale | | **-** | (70,363) |
| Financial assets at fair value through other comprehensive income | | **37,915** | - |
| Other assets | | **8,786** | (63,803) |
| Properties held for trading | | **1,574** | (3,268) |
| Due to banks and other financial institutions | | **44,934** | (265,497) |
| Deposits from customers | | **(241,597)** | 302,632 |
| Other liabilities | | **17,010** | 21,730 |
| Dividends received | 18 | **15,094** | 4,484 |
| Interest received | | **411,614** | 385,874 |
| Interest paid | | **(297,412)** | (249,798) |
| Taxation paid | | **(15,362)** | (18,305) |
| Net cash flows from operating activities | | **370,293** | 49,350 |
| **INVESTING ACTIVITIES** | | | |
| Net movement in investment properties | | **(91,460)** | (12,998) |
| Purchase of financial assets held to maturity | | **-** | (6,717) |
| Net movement in investment in associates | | **7,630** | 8,634 |
| Proceeds from partial sale of beneficial interest in a media joint venture | | **-** | 60,710 |
| Acquisition of subsidiaries, net of cash acquired | 24 | **(7,129)** | 10,529 |
| Dividends received from associates | | **8,944** | 10,672 |
| Purchase of beneficial interest in a media joint venture | | **-** | (60,430) |
| Additional subscription of shares in asset held for sale / media joint venture | | **(30,910)** | (28,074) |
| Net cash flows used in investing activities | | **(112,925)** | (17,674) |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from (repayment) of loans payable, net | | **192,071** | (8,832) |
| Proceeds from medium term notes, net | | **-** | 63,296 |
| Proceeds from bonds, net | | **151,745** | 98,800 |
| Purchase of treasury shares | | **(5,012)** | (4,146) |
| Proceeds from sale of treasury shares | | **2,484** | 5,058 |
| Interest payment on perpetual capital securities | | **(11,187)** | (11,261) |
| Dividends paid to equity holders of the Parent Company | | **(13,571)** | (33,354) |
| Dividends paid to non controlling interest | | **(11,575)** | (12,097) |
| Movement in non controlling interest | | **17,247** | (13,048) |
| Net cash flows from financing activities | | **322,202** | 84,416 |
| Net foreign exchange difference | | **(24,651)** | (11,365) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **554,919** | 104,727 |
| Cash and cash equivalents at 1 January | | **1,559,770** | 1,455,043 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 3 | **2,114,689** | 1,559,770 |

The attached notes 1 to 32 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

| | *Attributable to equity holders of the Parent Company* | | | | | | | | | | | *Perpetual capital securities* | *Non controlling interest* | *Total equity* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital KD 000's* | *Share premium KD 000's* | *Treasury shares KD 000's* | *Statutory reserve KD 000's* | *Voluntary reserve KD 000's* | *Cumulative changes in fair values KD 000's* | *Foreign currency translation reserve KD 000's* | *ESOP reserve KD 000's* | *Other reserve KD 000's* | *Retained earnings KD 000's* | *Total KD 000's* | *KD 000's* | *KD 000's* | *KD 000's* |
| As at 1 January 2018 (restated) * | 147,357 | 3,111 | (85,312) | 106,821 | 106,546 | 737 | (78,172) | 1,597 | (1,621) | 238,211 | 439,275 | 146,440 | 626,367 | 1,212,082 |
| Transition adjustment on adoption of IFRS 9 at 1 January 2018 (note 2.8) | - | - | - | - | - | 9,206 | - | - | - | (129,877) | (120,671) | - | (71,651) | (192,322) |
| Transition adjustment on adoption of IFRS 15 at 1 January 2018 | - | - | - | - | - | - | - | - | - | 957 | 957 | - | 46 | 1,003 |
| Balance as at 1 January 2018 (restated) | 147,357 | 3,111 | (85,312) | 106,821 | 106,546 | 9,943 | (78,172) | 1,597 | (1,621) | 109,291 | 319,561 | 146,440 | 554,762 | 1,020,763 |
| Profit for the year | - | - | - | - | - | - | - | - | - | 28,279 | 28,279 | - | 55,513 | 83,792 |
| Other comprehensive loss | - | - | - | - | - | (16,578) | (18,874) | - | - | - | (35,452) | - | (18,327) | (53,779) |
| Total comprehensive (loss) income | - | - | - | - | - | (16,578) | (18,874) | - | - | 28,279 | (7,173) | - | 37,186 | 30,013 |
| Dividends for 2017 at 10 fils per share (note 16) | - | - | - | - | - | - | - | - | - | (13,355) | (13,355) | - | - | (13,355) |
| Issue of bonus shares (note 16) | 7,368 | - | - | - | - | - | - | - | - | (7,368) | - | - | - | - |
| Purchase of treasury shares | - | - | (5,012) | - | - | - | - | - | - | - | (5,012) | - | - | (5,012) |
| Sale of treasury shares | - | - | 4,213 | - | - | - | - | - | - | (1,729) | 2,484 | - | - | 2,484 |
| Employees' share based payment | - | - | - | - | - | - | - | (62) | - | 418 | 356 | - | - | 356 |
| Transfer to retained earnings on derecognition of equity investments carried at FVOCI | - | - | - | - | - | 364 | - | - | - | (364) | - | - | - | - |
| Dividends paid to non-controlling interest | - | - | - | - | - | - | - | - | - | - | - | - | (11,575) | (11,575) |
| Interest payment on perpetual capital securities | - | - | - | - | - | - | - | - | - | (7,247) | (7,247) | - | (3,940) | (11,187) |
| Acquisition of subsidiary (note 24) | - | - | - | - | - | - | - | - | - | - | - | - | 23,765 | 23,765 |
| Ownership changes in subsidiaries | - | - | - | - | - | - | - | - | (12,551) | - | (12,551) | - | (13,066) | (25,617) |
| **As at 31 December 2018** | **154,725** | **3,111** | **(86,111)** | **106,821** | **106,546** | **(6,271)** | **(97,046)** | **1,535** | **(14,172)** | **107,925** | **277,063** | **146,440** | **587,132** | **1,010,635** |

* Certain amounts shown here do not correspond to the consolidated financial statements as at 31 December 2017 and reflect adjustments made as detailed in note 2.

The attached notes 1 to 32 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2018

| | *Attributable to equity holders of the Parent Company* | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital KD 000's* | *Share premium KD 000's* | *Treasury shares KD 000's* | *Statutory reserve KD 000's* | *Voluntary reserve KD 000's* | *Cumulative changes in fair values KD 000's* | *Foreign currency translation reserve KD 000's* | *ESOP reserve KD 000's* | *Other reserve KD 000's* | *Retained earnings KD 000's* | *Total KD 000's* | *Perpetual capital securities KD 000's* | *Non controlling interest KD 000's* | *Total Equity KD 000's* |
| As at 1 January 2017 *(as previously reported)* | 147,357 | 3,111 | (86,216) | 106,821 | 106,546 | (3,620) | (64,448) | 1,534 | (1,306) | 261,692 | 471,471 | 146,440 | 598,474 | 1,216,385 |
| Effect of restatement (note 2.1) | - | - | - | - | - | - | - | - | - | (6,263) | (6,263) | - | (6) | (6,269) |
| As at 1 January 2017 *(Restated)* | 147,357 | 3,111 | (86,216) | 106,821 | 106,546 | (3,620) | (64,448) | 1,534 | (1,306) | 255,429 | 465,208 | 146,440 | 598,468 | 1,210,116 |
| Profit for the year | - | - | - | - | - | - | - | - | - | 23,572 | 23,572 | - | 38,926 | 62,498 |
| Other comprehensive income (loss) | - | - | - | - | - | 4,357 | (13,724) | - | - | - | (9,367) | - | (9,553) | (18,920) |
| Total comprehensive income (loss) | - | - | - | - | - | 4,357 | (13,724) | - | - | 23,572 | 14,205 | - | 29,373 | 43,578 |
| Dividends for 2016 at 25 fils per share (note 16) | - | - | - | - | - | - | - | - | - | (33,684) | (33,684) | - | - | (33,684) |
| Purchase of treasury shares | - | - | (4,146) | - | - | - | - | - | - | - | (4,146) | - | - | (4,146) |
| Sale of treasury shares | - | - | 5,050 | - | - | - | - | - | - | 8 | 5,058 | - | - | 5,058 |
| Employees' share based payment | - | - | - | - | - | - | - | 63 | - | 83 | 146 | - | - | 146 |
| Dividends paid to non controlling interest | - | - | - | - | - | - | - | - | - | - | - | - | (12,097) | (12,097) |
| Interest payment on perpetual capital securities | - | - | - | - | - | - | - | - | - | (7,321) | (7,321) | - | (3,940) | (11,261) |
| Acquisition of subsidiary (note 24) | - | - | - | - | - | - | - | - | - | - | - | - | 12,084 | 12,084 |
| Ownership changes in subsidiaries | - | - | - | - | - | - | - | - | (315) | 124 | (191) | - | 2,479 | 2,288 |
| As at 31 December 2017 | 147,357 | 3,111 | (85,312) | 106,821 | 106,546 | 737 | (78,172) | 1,597 | (1,621) | 238,211 | 439,275 | 146,440 | 626,367 | 1,212,082 |

The attached notes 1 to 32 form part of these consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

## 1 CORPORATE INFORMATION

Kuwait Projects Company Holding K.S.C.P. (the "Parent Company") is a public shareholding company registered and incorporated under the laws of the State of Kuwait on 2 August 1975, and listed on the Boursa Kuwait. The address of the Parent Company's registered office is P.O. Box 23982, Safat 13100 - State of Kuwait.

The consolidated financial statements of the Parent Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018 were authorized for issue in accordance with a resolution of the Board of Directors on, 21 March 2019 and are issued subject to the approval of the Annual General Assembly of the Shareholders' of the Parent Company. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance.

The principal activities of the Parent Company comprise the following:
1. Owning stocks and shares in Kuwaiti or non-Kuwaiti companies and shares in Kuwaiti or non-Kuwaiti limited liability companies and participating in the establishment of, lending to and managing of these companies and acting as a guarantor for these companies.
2. Lending money to companies in which it owns shares, guaranteeing them with third parties where the holding parent company owns 20% or more of the capital of the borrowing company.
3. Owning industrial equities such as patents, industrial trademarks, royalties, or any other related rights and franchising them to other companies or using them within or outside the state of Kuwait.
4. Owning real estate and moveable properties to conduct its operations within the limits as stipulated by law.
5. Employing excess funds available with the parent company by investing them in investment and real estate portfolios managed by specialized companies.

The major shareholder of the Parent Company is Al Futtooh Holding Company K.S.C. (Closed).

## 2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, derivative financial instruments and investment properties that have been measured at fair value. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortized cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional currency of the Parent Company, and all values are rounded to the nearest thousand except when otherwise indicated.

The comparative consolidated statement of financial position as at 31 December 2017 and the consolidated comparative statement of changes in equity for the year ended 31 December 2017 have been restated in accordance with IAS 8: 'Accounting policies, changes in accounting estimates and errors' to account for a decrease in the Group's 'investment in a media joint venture' by KD 5,667 thousand and 'investment in associates' by KD 602 thousand. The restatement resulted in a decrease in the 'retained earnings' by KD 6,263 thousand and non controlling interest by KD 6 thousand. The restatement did not have any effect on the consolidated income statement and the consolidated cash flow statement for the year ended 31 December 2017.

Further, certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications were made in order to more appropriately present certain items of consolidated statement of financial position and consolidated cash flow statement. Such reclassifications do not affect previously reported assets, liabilities, equity and profit for the year, nor materially affect the consolidated cash flow statement. The reclassifications are not material to the consolidated financial statements.

## 2.2 STATEMENT OF COMPLIANCE

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

## 2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group applied IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)**

**IFRS 9 Financial Instruments ("IFRS 9")**
The Group has adopted IFRS 9 effective from 1 January 2018. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") and represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The Group has not restated comparative information for 2017 as permitted by the transitional provisions of the standard. Therefore, the information presented for 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for 2018. Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018 and are disclosed in Note 2.8.

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

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

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity and amortised cost have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVTPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the consolidated statement of income.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

***Changes to the impairment calculation***
The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

The Group's accounting policies for impairment of financial assets is explained in Note 2.6.

***Hedge accounting***
The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required.

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)**

**IFRS 7R**
To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated, and the Group has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Note 2.8, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 2.6.

Reconciliations from opening to closing ECL allowances are presented in Note 4.

**IFRS 15 Revenue from Contracts with Customers ("IFRS 15")**
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in scope of other standards. The new standard established a five-step model to account for revenue arising from contacts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange of transferring goods or services to customer.

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

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

Upon adoption of IFRS 15 the Group has recorded the adjustment in its investment in a media joint venture by KD 1,003 thousand, retained earnings by KD 957 thousand and KD 46 thousand in non-controlling interest. Other than the impact on the Group's investment in media joint venture, the adoption of IFRS 15 is resulting in no material change in the revenue recognition policy of the Group in relation to its contracts with customers.

**2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE**
Standards issued but not yet effective up to the date of the Group's consolidated financial statements are listed below. The Group intends to adopt those standards when they become effective.

**IFRS 16: Leases**
In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the financing expense on the lease liability and the depreciation expense on the right-of-use asset.

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

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

**IFRS 16: Leases (continued)**

***Transition to IFRS 16***
The Group plans to adopt IFRS 16 using the modified retrospective method. Applying this method, the comparative information will not be restated. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

The Group is currently in the process to determine the impact of IFRS 16 on its consolidated financial statements. However, based on preliminary assessment, the Group has assessed that the impact of application of IFRS 16 is insignificant to the Group's consolidated financial statements.

**IFRS 17 Insurance Contracts**
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

**Amendments to IFRS 9: Prepayment Features with Negative Compensation**
Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

**Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

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

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

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted.

**2.5 BASIS OF CONSOLIDATION**

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent 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 in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full 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 consolidated income statement
- Reclassifies the parent's share of components previously recognised in OCI to consolidated income statement or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.5 BASIS OF CONSOLIDATION (continued)**

The subsidiaries of the Group are as follows:

| ***Name of company*** | ***Country of incorporation*** | ***Principal activities*** | ***Effective interest as at 31 December **** | |
|---|---|---|---|---|
| | | | ***2018*** | *2017* |
| ***Directly held*** | | | | |
| United Gulf Holding Company B.S.C ( "UGH") | Bahrain | Holding Company | **93%** | 96% |
| Burgan Bank S.A.K. (“Burgan”) | Kuwait | Banking | **63%** | 64% |
| United Real Estate Company K.S.C.P. (“URC”) | Kuwait | Real Estate | **72%** | 73% |
| United Industries Company K.S.C. (Closed) (“UIC”) | Kuwait | Industrial | **78%** | 80% |
| Overland Real Estate Company W.L.L. (“Overland”) | Kuwait | Real estate | **88%** | 92% |
| Pulsar Knowledge Centre | India | Consultancy | **100%** | 100% |
| United Gulf Management Incorporation | USA | Asset management | **100%** | 100% |
| United Gulf Management Limited | United Kingdom | Asset management | **100%** | 100% |
| Al Rawabi United Holding Company K.S.C.C. (Holding) | Kuwait | Holding | **100%** | 100% |
| Takaud Savings & Pensions B.S.C. | Bahrain | Pension and savings | **100%** | 100% |
| Kuwait United Consultancy Company K.S.C. (Closed) | Kuwait | Consultancy | **100%** | 100% |
| ***Held through Group companies*** | | | | |
| United Towers Holding Company K.S.C. (Closed) | Kuwait | Real Estate | **67%** | 67% |
| Ikarus United for Marine Services Company S.A.K. (Closed) | Kuwait | Marine services | **60%** | 60% |
| North Africa Holding Company K.S.C. (Closed) (“NAH”) | Kuwait | Investments | **53%** | 53% |
| North Africa Holding Industries Limited | Guernsey | Holding Company | **98%** | 98% |
| United Networks Company K.S.C. (Closed) (“UNC”) | Kuwait | Satellite & media | **64%** | 64% |
| Assoufid B.V. | Netherlands | Real estate | **100%** | 100% |
| North Africa Constructions Coöperatief U.A. | Netherlands | Holding Company | **100%** | 100% |
| Mena Homes Real Estate Company K.S.C (Closed) | Kuwait | Real estate | **88%** | 88% |
| ***Structured entities (“SPVs”) treated as subsidiaries*** | | | | |
| Kuwait Projects Company (Cayman) | Cayman Islands | Special purpose entity | **100%** | 100% |
| UBC Ventures W.L.L. | Bahrain | Special purpose entity | **99%** | 99% |
| Kuwait Projects Company S.P.C Limited (“DIFC”) | UAE | Special purpose entity | **100%** | 100% |
| Al Ansar United Real Estate Company S.P.C **(a)** | Kuwait | Special purpose entity | **100%** | - |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.5 BASIS OF CONSOLIDATION (continued)**

| *Name of company* | *Country of incorporation* | *Principal activities* | *Effective interest as at 31 December ** | |
|---|---|---|---|---|
| | | | ***2018*** | *2017* |
| ***Held through UGH*** | | | | |
| United Gulf Bank B.S.C. ("UGB") | Bahrain | Investment banking | **100%** | **100%** |
| ***Held through UGH /UGB*** | | | | |
| KAMCO Investment Company K.S.C.P. ("KAMCO") | Kuwait | Asset management | **86%** | 86% |
| FIM Bank Group ("FIM Bank") **(b)** | Malta | Banking | **89%** | 84% |
| Hatoon Real Estate Company W.L.L. | Kuwait | Real estate | **98%** | 98% |
| Syria Gulf Investment Company | Syria | Investment banking | **99%** | 99% |
| United Gulf Financial Services North Africa Holding Company | Tunisia | Brokerage and investment banking | **83%** | 83% |
| Al Zad Real Estate W.L.L. | Kuwait | Real estate | **99%** | 99% |
| Al Dhiyafa United Real Estate Company W.L.L. | Kuwait | Real estate | **100%** | 100% |
| First North Africa Real Estate Company W.L.L. | Kuwait | Real estate | **100%** | 100% |
| KAMCO GCC Opportunistic Fund | Bahrain | Fund | **100%** | 100% |
| United Gulf Asset Company S.P.C | Bahrain | Asset management | **100%** | 100% |
| Kuwait Private Equity Opportunities Fund | Kuwait | Fund | **73%** | 73% |
| United Gulf Realty International Limited | British Virgin Islands | Real estate | **100%** | 100% |
| KAMCO Investment Company (DIFC) Limited | UAE | Investment management | **100%** | 100% |
| KAMCO Mena Plus Fixed Income Fund ("KMPFIF") **(e)** | Kuwait | Fund | **38%** | 71% |
| AL Jazi Money Market fund | Kuwait | Fund | **97%** | 97% |
| Federal Street 176 Holdings, Inc. | USA | Real estate | **100%** | 100% |
| Nawasi United Holding Co. | Kuwait | Holding Company | **96%** | 96% |
| AL Tadamon United Holding Co. | Kuwait | Holding Company | **96%** | 96% |
| Flint Manager Limited | Jersey | Management services | **100%** | 100% |
| Flint Advisory Company LLC | USA | Advisory services | **46%** | 46% |
| Buckeye Power Advisory Company LLC | USA | Advisory services | **50%** | 50% |
| Buckeye Power Manager Limited | Jersey | Management services | **100%** | 100% |
| Carnition Manager Limited **(a)** | Jersey | Advisory services | **100%** | - |
| Carnition advisory company LLC **(a)** | USA | Advisory services | **75%** | - |
| S17P02V Holding Ltd **(a)** | UAE | Holding Company | **100%** | - |
| Global Investment House ("GIH") **(a)** | Kuwait | Financial Services | **71%** | - |
| ***Held through GIH*** | | | | |
| Shurooq Investment Services Company – SAOG **(a)** | Oman | Financial Services | **77%** | - |
| Global Investment House – Egypt **(a)** | Egypt | Financial Services | **94%** | - |
| Global Investment House B.S.C. (Closed) **(a)** | Bahrain | Brokerage Services | **100%** | - |
| First securities Brokerage Company K.S.C (Closed) ("FSBC") **(a)** | Kuwait | Brokerage Services | **93%** | - |
| Global Investment House Saudia ("Global Saudia") **(a)** | Saudi Arabia | Financial Services | **100%** | - |
| Global Investment House (DIFC) Limited **(a)** | UAE | Financial Services | **100%** | - |
| Global Investment House Company Limited- Jordan ("Global Jordan") **(a)** | Jordan | Brokerage Services | **93%** | - |
| ***Held through Burgan*** | | | | |
| Algeria Gulf Bank S.P.A. ("AGB") **(c)** | Algeria | Banking | **91%** | 91% |
| Bank of Baghdad P.J.S.C. | Iraq | Banking | **52%** | 52% |
| Tunis International Bank S.A. | Tunisia | Banking | **87%** | 87% |
| Baghdad Brokerage Company | Iraq | Banking | **52%** | 52% |
| Burgan Bank A.S. | Turkey | Banking | **100%** | 99% |
| Burgan Finansal Kiralama A.S. | Turkey | Leasing | **100%** | 99% |
| Burgan Yatirim Menkul Degerler A.S. | Turkey | Brokerage | **100%** | 99% |
| Burgan Tier 1 Financing Limited | Dubai | Special Purpose entity | **100%** | 100% |
| Burgan Bank Financial Services Limited("BBFS") | Dubai | Financial Advisory Services | **100%** | 100% |
| Al Amin Insurance Brokerage Co. | Iraq | Brokerage | **26%** | 26% |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.5 BASIS OF CONSOLIDATION (continued)**

| *Name of company* | *Country of incorporation* | *Principal activities* | *Effective interest as at 31 December ** | |
|---|---|---|---|---|
| | | | ***2018*** | *2017* |
| Burgan Senior SPC Limited | Dubai | Special Purpose entity | **100%** | 100% |
| Burgan Wealth Limited | Dubai | Wealth Management Services | **100%** | 99% |
| ***Held through URC*** | | | | |
| Souk Al -Muttaheda Joint venture – Salhia | Kuwait | Real estate | **92%** | 92% |
| United Building Company S.A.K. (Closed) | Kuwait | Real estate | **98%** | 98% |
| United Building Company Egypt S.A.E. | Egypt | Real estate | **100%** | 100% |
| Tamleek United Real Estate Company W.L.L. | Kuwait | Real estate | **99%** | 99% |
| United International Project Management Company W.L.L. | Kuwait | Facilities management | **96%** | 96% |
| United Facilities Management Company S.A.K. (Closed) | Kuwait | Facilities management | **97%** | 97% |
| United Lebanese Real Estate Company S.A.L (Holding) | Lebanon | Real estate | **100%** | 100% |
| United Areej Housing Company W.L.L | Jordan | Real estate | **100%** | 100% |
| Al Reef Real Estate Company S.A.O. (Closed) | Oman | Real estate | **100%** | 100% |
| United Ritaj for Touristic Investment S.A.E. (Closed) | Egypt | Touristic development | **100%** | 100% |
| United Facilities Development Company K.S.C (Closed) | Kuwait | Real estate | **64%** | 64% |
| United Company for Investment W.L.L | Syria | Real estate | **95%** | 95% |
| United Real Estate Investment Company S.A.E | Egypt | Investment | **100%** | 100% |
| Manazel United Real Estate Company S.A.E | Egypt | Real estate | **92%** | 92% |
| Aswar United Real Estate Company S.A.E | Egypt | Real estate | **100%** | 100% |
| Al Dhiyafa Holding Company K.S.C (Closed) | Kuwait | Real estate | **87%** | 87% |
| United Real Estate Jordan P.S.C. | Jordan | Real estate | **100%** | 100% |
| Greenwich Quay Limited | Isle of Man | Real estate | **100%** | 100% |
| United Real Estate Company W.L.L. | Syria | Real estate | **90%** | 90% |
| Universal United Real Estate W.L.L | Kuwait | Real estate | **63%** | 63% |
| Gulf Egypt for Hotels & Tourism S.A.E | Egypt | Real estate | **100%** | 100% |
| Bhamdoun United Real Estate Company S.A.L | Lebanon | Hotel management | **100%** | 100% |
| Rouche Holding Company S.A.L | Lebanon | Real estate | **100%** | 100% |
| Al Dhiyafa – Lebanon SAL (Holding Company) | Lebanon | Real estate | **100%** | 100% |
| United Lebanese Real Estate Company S.A.L | Lebanon | Real estate | **100%** | 100% |
| Abdali Mall Company P.S.C. (Note 8) | Jordan | Real estate | **100%** | 60% |
| United Facilities Management L.L.C. | Oman | Facilities management | **100%** | 100% |
| UFM for Cleaning and Technical Services L.L.T. | UAE | Facilities management | **100%** | 100% |
| UFM Facilities Management Services L.L.C. | UAE | Facilities management | **100%** | 100% |
| ABM1 Building Maintenance L.L.C. | UAE | Facilities management | **100%** | 100% |
| Egypt United Project Management Co. WLL | Egypt | Project management | **100%** | 100% |
| Dhow Holdings Limited | Isle of Man | Holding Company | **100%** | 100% |
| UFM Facilities Management Services L.L.C.. | Jordan | Facilities management | **100%** | 100% |
| Areej United for Agricultural Investment Co. | Egypt | Agriculture | **100%** | 100% |
| ***Held through UIC*** | | | | |
| Kuwait National Industrial Projects Company K.S.C. (Closed) | Kuwait | Industrial Investment | **100%** | 100% |
| Eastern Projects General Trading Company W.L.L. | Kuwait | Industrial Investment | **99%** | 99% |
| United Gulf Industries Company W.L.L | Saudi Arabia | Industrial Investment | **95%** | 95% |
| ***Held through UNC*** | | | | |
| Gulfsat Communications Company K.S.C. (Closed) | Kuwait | Satellite services | **82%** | 82% |
| Takhatob,Company limited by shares | Cayman Islands | Communication | **100%** | 100% |
| Syrian Communication Technological Company | Syria | Communication | **100%** | 100% |
| Gulfsat Communication Company | Jordan | Communication | **100%** | 100% |
| Gcast Media WLL | Egypt | Communication | **100%** | 100% |
| My TV (CY) Limited | Cyprus | Communication | **100%** | 100% |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.5 BASIS OF CONSOLIDATION (continued)**

| *Name of company* | *Country of incorporation* | *Principal activities* | *Effective interest as at 31 December ** | |
|---|---|---|---|---|
| | | | ***2018*** | *2017* |
| ***Held through Overland*** | | | | |
| Amaken United Real Estate Company **(a)** | Kuwait | Real estate | **100%** | 76% |
| United Industrial Gas K.S.C. (Closed) | Kuwait | Industrial Investment | **100%** | 100% |
| Alternative Energy Projects Company | Kuwait | Manufacturing | **100%** | 100% |
| United Education Company K.S.C. (Closed) | Kuwait | Education | **64%** | 64% |
| ***Held Through FIM Bank*** | | | | |
| London Forfaiting Company Limited | UK | Forfaiting | **100%** | 100% |
| FIM Factors B.V. | Netherlands | Holding Company | **100%** | 100% |
| FIM Business Solutions Limited | Malta | IT Services Provider | **100%** | 100% |
| FIM Property Investment Limited | Malta | Property Management | **100%** | 100% |
| London Forfaiting International Limited | UK | Holding Company | **100%** | 100% |
| London Forfaiting Americas Inc. | USA | Marketing | **100%** | 100% |
| London Forfaiting do Brasil Ltd. | Brazil | Marketing | **100%** | 100% |
| Mena Factors Limited | UAE | Factoring | **100%** | 100% |
| India Factoring and Finance Solutions Private Limited | India | Factoring | **86%** | 86% |
| CIS Factors Holdings B.V. **(d)** | Netherland | Factoring | **-** | 100% |
| FIM Holdings (Chile) S.P.A. | Chile | Factoring | **100%** | 100% |
| The Egyptian Company for Factoring S.A.E | Egypt | Factoring | **100%** | 100% |
| ***Held through Pulsar Knowledge Centre*** | | | | |
| PKC Advisory Services JLT | UAE | Consultancy | **100%** | 100% |
| ***Held through United Towers Holding Company*** | | | | |
| 22 project Management Company | Kuwait | Real estate | **100%** | 100% |
| ***Held through North Africa Holding Industries Limited*** | | | | |
| SACEM Industries S.A. | Tunisia | Manufacturing | **100%** | 100% |
| SACEM Service | Tunisia | Service & repairs | **100%** | 100% |
| STE SACEM Training | Tunisia | Industrial Training | **100%** | 100% |
| SACEM International | Tunisia | Trading | **100%** | 100% |
| SACEM Smart | Tunisia | Research & development | **100%** | 100% |
| SACEM Energy and Engineering | Tunisia | Industrial services | **100%** | 100% |
| SACEM GCC electrical L.L.C | UAE | Sales | **100%** | 100% |
| SACEM Industries Cote D'ivoire | Ivory Coast | Sales | **100%** | 100% |
| SACEM Rowanda Ltd | Rowanda | Sales | **100%** | 100% |
| SOCIETE DEN **(a)** | Tunisia | Advertising services | **100%** | - |
| ***Held through Assoufid BV*** | | | | |
| Assoufid Properties development S.A | Morocco | Real Estate | **100%** | 100% |
| Assoufid Properties Management S.A | Morocco | Facilities management | **100%** | 100% |
| Assoufid Golf Operations S.A | Morocco | Facilities management | **100%** | 100% |
| Assoufid Hotels SA | Morocco | Real Estate | **100%** | 100% |
| Assoufid Golf SA | Morocco | Real Estate | **100%** | 100% |
| Assoufid Golf & Hotels SA | Morocco | Real Estate | **100%** | 100% |
| Stavebni S.A. | Morocco | Construction | **100%** | 100% |
| Assem BV | Netherlands | Real Estate | **100%** | 100% |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.5 BASIS OF CONSOLIDATION (continued)**

| *Name of company* | *Country of incorporation* | *Principal activities* | *Effective interest as at 31 December ** | |
|---|---|---|---|---|
| | | | ***2018*** | *2017* |
| ***Held through Rawabi*** | | | | |
| Jordan Kuwait Bank P.L.C. ("JKB") | Jordan | Banking | **51%** | 51% |
| ***Held through United Education Company*** | | | | |
| Al Rayan Holding Company K.S.C (Closed) | Kuwait | Educational | **87%** | 85% |
| AUS Education Company W.L.L | Kuwait | Educational | **70%** | 70% |
| AlRayan Educational Services Company (ARESC) | Kuwait | Educational | **100%** | 99% |
| Al-Nouri Educational Establishment Co W.L.L | Kuwait | Educational | **100%** | 99% |
| ***Held through NAH*** | | | | |
| Egyptian International Medical Center S.A.E | Egypt | Pharmaceutical | **51%** | 51% |
| North Africa Educational Services Limited **(d)** | Guernsey | Investment Holding company | **-** | 100% |
| Cheraga North Africa General Trading (L.L.C) | UAE | Investment Holding company | **100%** | 100% |
| North Africa Holding Glass Industries Ltd | Guernsey | Investment Holding company | **100%** | 100% |
| North Africa Holding Pharma Industry Ltd | Guernsey | Investment Holding company | **100%** | 100% |
| North Africa Aero General Trading (LLC) | UAE | Investment Holding company | **100%** | 100% |
| North Africa Holding Industries Ltd | Guernsey | Investment Holding company | **100%** | 100% |
| North Africa Management Services (LLC) | UAE | Investment Holding company | **100%** | 100% |
| North Africa Pharmaceutical Industries LLC | Egypt | Investment Holding company | **100%** | 100% |
| North Pharma Distribution LLC | Egypt | Investment Holding company | **100%** | 100% |
| Suntrana Investment Ltd | Cyprus | Investment Holding company | **100%** | 100% |
| Kivalina Investments Ltd | Cyprus | Investment Holding company | **100%** | 100% |
| North Africa Holding Real Estate | Morocco | Real Estate | **100%** | 100% |
| North Africa Holding Real Estate Cooperatief U.A. **(d)** | Netherlands | Real Estate | **-** | 100% |
| Pacato SARL | Morocco | Real Estate Development | **100%** | 100% |
| Niteshade Limited | BVI | Investment Holding company | **100%** | 100% |
| Tiglio SARL | Morocco | Real Estate Development | **100%** | 100% |
| Tolland Limited | BVI | Investment Holding company | **100%** | 100% |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.5 BASIS OF CONSOLIDATION (continued)**

| *Name of company* | *Country of incorporation* | *Principal activities* | ***Effective interest as at 31 December **** | |
|---|---|---|---|---|
| | | | ***2018*** | *2017* |
| ***Held through JKB*** | | | | |
| Ejarah for Finance Leasing Company | Jordan | Leasing | **100%** | 100% |
| Specialized Managerial Company for Investment and Financial Consultation | Jordan | Financial Services | **100%** | 100% |

* For directly held subsidiaries effective interest represents effective ownership of the Group. For indirectly held subsidiaries, effective interest represents effective ownership of the respective Group subsidiaries.

(a) These entities were acquired / formed or additional stake purchased during the year.

(b) Burgan Bank holds 9% equity interest in FIM Bank

(c) JKB holds 10% equity interest in AGB.

(d) These entities were liquidated during the year.

(e) The effective ownership of the Group in KMPFIF decreased from 71 % to 38% since the units were redeemed in KMPFIF.

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business combinations and goodwill**
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

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.

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 consolidated income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IFRS 9 in consolidated income statement.

If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non controlling interest, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Business combinations and goodwill (continued)**
If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date.

If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated income statement.

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

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**Financial Instruments**
***Date of recognition***
Financial assets and liabilities are initially recognised on the settlement date, i.e. the date the asset is received from or delivered to the counterparty. Changes in fair value between the trade date and settlement date are recognised in the consolidated income statement or in consolidated statement of comprehensive income through cumulative changes in fair values in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

***Initial measurement of financial instruments***
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments as described below. Financial instruments are initially measured at their fair values except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtract from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

***Day 1 profit or loss***
When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in investment income. In those cases where fair value is based on models for which some inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in statement of income when the inputs become observable, or when the instrument is derecognised.

***Measurement categories of financial assets and liabilities***
From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

Before 1 January 2018, the Group classified its financial assets as loans and receivables (amortised cost), FVTPL, available-for-sale or held-to-maturity (amortised cost).

Financial liabilities, other than financing commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments (continued)**

***Business model assessment***
The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

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

***Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)***
As a second step of its classification process, the Group assesses whether the financial instruments' to identify whether they meet SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition that may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

***Financial instruments at amortised cost***
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit (SPPI) on the principal amount outstanding.

Cash in hand and at banks, Treasury bills, bonds and other debt securities, loans and advances, certain investment securities and certain other assets are classified as financial instruments at amortised cost.

Due to banks and other financial institutions, deposits from customers, loans payable, bonds, medium term notes and other liabilities are classified as financial instruments at amortised cost.

Financial instruments categorised at amortised cost are subsequently measured at amortized cost and are subject to impairment. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the effective interest method (EIR). Gains and losses are recognised in consolidated income statement when the asset is derecognised, modified or impaired.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments (continued)**

***Financial instruments at FVOCI***
The Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI except for the recognition of impairment gains and losses. Interest income and foreign exchange gains and losses are recognised in consolidated income statement. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to consolidated income statement. The management of the Group classifies certain quoted and unquoted bonds as debt instrument at FVOCI and includes them under financial assets at fair value through other comprehensive income in the consolidated statement of financial position.

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

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

***Financial instruments at FVTPL***
Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The liabilities (and assets until 1 January 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The liabilities (and assets until 1 January 2018 under IAS 39) containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in consolidated income statement with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Group’s own credit risk. Such changes in fair value are recorded in the own credit reserve through OCI and do not get recycled to the consolidated income statement. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Dividend income from equity instruments measured at FVTPL is recorded in consolidated income statement as other operating income when the right to the payment has been established.

The Group does not have any financial liability classified as FVTPL.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments (continued)**

***Financial guarantees, letters of credit and undrawn loan commitments***
The Group issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated income statement, and – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 – an ECL provision as set out in Note 26

The premium received is recognised in the consolidated income statement in Fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 26.

***Derivative financial instruments and hedge accounting***
The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks including exposures arising from forecast transactions and firm commitments.

Derivatives are recorded at fair value. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the consolidated statement of financial position. For hedges, which do not qualify for hedge accounting and for held for trading derivatives, any gains or losses arising from changes in the fair value of the derivative are taken directly to the consolidated income statement.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument. Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contacts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVTPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

From 1 January 2018, with the introduction of IFRS 9, the Group accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments (continued)**

***Derivative financial instruments and hedge accounting (continued)***
For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk)
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

*Fair value hedges*
The change in the fair value of hedging derivative is recognised in the consolidated income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated income statement over the remaining term to maturity. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated income statement. The Group uses forward foreign exchange contracts to hedge against changes in fair value of its foreign currency exposures.

*Cash flow hedges*
The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while any ineffective portion is recognised immediately in the consolidated income statement.

Amounts recognised as other comprehensive income are transferred to the consolidated income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss. The Group uses interest rate swaps to hedge its cash flows on variable rate loans.

*Hedge of net investments in foreign operations*
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income as part of ‘foreign currency translation adjustment’, while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the consolidated income statement.

The Group uses forward currency contracts to hedge its exposure to foreign exchange risk on its investments in foreign subsidiaries. Gains or losses on the fair valuation of this forward currency contract are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in the subsidiaries.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments (continued)**

***Financial assets available for sale – Policy applicable before 1 January 2018***
Financial assets available for sale include equity and debt securities. Equity investments classified as available for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated income statement, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated income statement. Financial assets available for sale whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Interest earned whilst holding financial assets available for sale is reported as interest income using the effective interest rate method.

The Group evaluates whether the ability and intention to sell its financial assets available for sale in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available for sale category, the carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to consolidated income statement over the remaining life of the investment using the effective interest rate method. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated income statement.

***Financial assets held to maturity - Policy applicable before 1 January 2018***
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the effective interest method, less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement.

***Reclassification of financial assets and liabilities***
From 1 January 2018, the Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

***De-recognition of financial assets and financial liabilities***
*Derecognition due to substantial modification of terms and conditions*
The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:
- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments (continued)**

***De-recognition of financial assets and financial liabilities (continued)***

*Derecognition other than for substantial modification*
A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired, or
- 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 the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where 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. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

***Offsetting of financial assets and financial liabilities***
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis so as to realize the assets and liabilities simultaneously.

***Impairment of financial assets – Policy applicable from 1 January 2018***
*Overview of the ECL principles*
The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairment by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments (continued)**

***Impairment of financial assets – Policy applicable from 1 January 2018 (continued)***

*Overview of the ECL principles (continued)*
The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: 12 months ECL
When loans are first recognised, the Group recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: Lifetime ECL – not credit impaired
When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Lifetime ECL – credit impaired
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Groups methodology for specific provisions remains largely unchanged. The Group records an allowance for the LTECLs.

POCI:
Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a portion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

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

- PD — The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD — The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD — The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Group considers three scenarios (a base case, an upside, a downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments (continued)**

***Impairment of financial assets – Policy applicable from 1 January 2018 (continued)***

*The calculation of ECL (continued)*

The mechanics of the ECL method are summarised below:

| | |
|---|---|
| ➢ Stage 1: | The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. |
| ➢ Stage 2: | When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR. |
| ➢ Stage 3: | For loans considered credit-impaired, the Group recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%. |
| ➢ Loan commitments and letter of credits | When estimating LTECLs for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.<br><br>For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. |
| ➢ Financial guarantee contracts | The Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated income statement, and the ECL provision. For this purpose, the Group estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. |

*Debt instruments measured at fair value through OCI*
The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the consolidated statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to consolidated income statement. The accumulated loss recognised in OCI is recycled to the consolidated income statement upon derecognition of the assets.

*Forward looking information*
The Group incorporates forward-looking economic inputs that are relevant to the region in which the Group is located, for both its assessment of significant increase in credit risk and its measurement of ECL. Qualitative overlays are made as and when necessary to correctly reflect the impact of the movement in the relevant economy on the Group. Incorporating forward-looking information increases the degree of judgement required. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

*Collateral valuation*
To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Group's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a regular basis.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments (continued)**

***Impairment of financial assets – Policy applicable from 1 January 2018 (continued)***

*Write-offs*
The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

***Impairment of financial assets – Policy applicable before 1 January 2018***
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrowers or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets available for sale*
For financial assets available for sale, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement

*Financial assets carried at amortised cost*
For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments (continued)**

***Impairment of financial assets – Policy applicable before 1 January 2018***

*Financial assets carried at amortised cost (continued)*
If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other income in consolidated income statement.

When determining whether the risk of default has increased significantly since initial recognition, the Group considers quantitative, qualitative information and backstop indicators and analysis based on the Group’s historical experience and expert credit risk assessment, including forward-looking information.

Objective evidence that a specific financial asset or a group of financial assets classified as loans and advances are impaired includes whether any payment of principal or interest is overdue by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty’s business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral etc. The Group assess whether objective evidence of impairment exists on an individual basis for each individually significant asset and collectively for others not deemed individually significant.

**Cash and cash equivalents**
For the purpose of the consolidated cash flow statement, cash and cash equivalents includes cash and bank balances, deposits and other short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities up to three months from the date of acquisition and that are subject to an insignificant risk of change in value.

**Fair value measurement**
The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 30.

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

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

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

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

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value measurement (continued)**
The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

For investments in equity instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**Inventories**
Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition and are determined on the weighted average basis. Net realisable value is based on estimated selling price in the ordinary course of the business, less any further costs expected to be incurred on completion and disposal. Inventories are included as part of other assets.

**Properties held for trading**
Properties acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, are held as properties held for trading and are measured at lower of cost and net realisable value.

Cost includes free hold and leasehold rights for land, amount paid to contractors for construction, borrowing costs, planning and design costs, cost of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

Net realisable value is the estimated selling price in the ordinary course of business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated cost of sale. Non refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when paid.

The cost of properties held for trading recognised in consolidated income statement on disposal is determined with reference to the specific cost incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold. Write down of properties held for trading are charged to other operating expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment in associates and joint ventures**
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

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

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated income statement outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

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

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

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

**Investment properties**
Investment properties comprise completed property and property under construction or re-development held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment properties when the definition of investment properties is met and it is accounted for as a finance lease.

Investment properties are measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of existing investment properties at the time that cost is incurred if the recognition criteria are met.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment properties (continued)**
Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values are included in the consolidated income statement in the year in which they arise. For the purposes of these consolidated financial statements the assessed fair value is:

- Reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or minimum lease payments.
- Increased by the carrying amount of any liability to the holder of leasehold or freehold property included in the consolidated statement of financial position as a finance lease obligation.

Investment properties are derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognised in the consolidated income statement in the year of retirement or disposal.

Gains or losses on the disposal of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period consolidated financial statements.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

**Property, plant and equipment**
Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. 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 income statement.

Land is not depreciated. Depreciation is computed on a straight-line basis to their residual values over the estimated useful lives of other property, plant and equipment as follows:

| | |
|---|---|
| Buildings | 10 to 50 years |
| Furniture and fixtures | 3 to 10 years |
| Motor vehicles | 3 to 5 years |
| Plant and equipment | 3 to 20 years |
| Aircraft | 15 years |

Leasehold improvements are depreciated over the period of lease.

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, plant and equipment.

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

**Borrowing costs**
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Intangible assets**
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. The estimated useful lives of intangible assets are as follows:

| | |
|---|---|
| Licenses | 10 years to indefinite |
| Brand name | Indefinite |
| Customer contracts, core deposits and student relationships | Up to 10 years |

Licenses renewable at the end of the expiry period at little or no cost to the Group are assumed to have indefinite useful life.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

**Provisions**
*General*
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

*Contingent liabilities recognised in a business combination*
A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of: the amount that would be recognised in accordance with the general guidance for provisions above in accordance with 'IAS 37: Provisions, Contingent Liabilities and Contingent Assets', or the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition in accordance with 'IAS 18: Revenue'.

**End of service indemnity**
Provision is made for amounts payable to employees under the Kuwaiti Labour Law, employee contracts and applicable labour laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the reporting date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, the treasury shares reserve, which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any provisional recorded losses in order of reserves, retained earnings and treasury share reserve account. No cash dividends are paid on these shares. 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.

**Share based payment transactions**
The Group operates an equity-settled, share-based Employee Stock Option Plan. Under the terms of the plan, stock options are granted to permanent employees. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value of the stock options is determined using Black-Scholes option pricing model further details of which are given in note 17. The fair value of the stock options is recognised as an expense over the vesting period with corresponding effect to equity.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and / or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement expense or credit for a year represents the movement in cumulative expense recognised as at the beginning and end of that year.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other performance and / or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding share options is reflected as additional share dilution in the computation of diluted earnings per share (Note 22).

**Foreign currency translation**
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. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to KD at rates of exchange prevailing on that date. Any resultant gains or losses are recognised in the consolidated income statement.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to KD at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised in the consolidated income statement, all differences are recognised in the consolidated income statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Foreign currency translation (continued)**
Assets (including goodwill) and liabilities, both monetary and non-monetary, of foreign operations are translated at the exchange rates prevailing at the reporting date. Operating results of such operations are translated at average exchange rates for the year. The resulting exchange differences arising on translation are recognised in the other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated income statement.

**Other reserve**
Other reserve is used to record the effect of changes in ownership interest in subsidiaries, without loss of control.

**Segment information**
A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

**Income 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 the payment is being made. Revenue is measured at the fair value of the consideration received or receivable. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

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

*Fees and commission*
Fees and commission income is recognised when the Group satisfies the performance obligation by transferring the promised service to customers. At inception of the contract, the Group determines whether it satisfies the performance obligation over a period of time or at a point in time. Fees income earned from services provided over a period of time is recognised over the period of service. Fees and commissions arising from providing a transaction service are recognised at a point in time on completion of the underlying transaction.

*Interest income and expense*
Interest income and expense are recognised in the consolidated income statement for all interest bearing instruments on EIR basis. The calculation includes all contractual terms of the financial instrument and includes any fee or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

Once a financial instrument categorised, as financial assets available for sale, financial assets held to maturity, and loans and receivables is impaired, interest is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

*Digital satellite network services income*
Digital satellite network services represent revenue from direct-to-home subscription, cable subscription, advertising activities, receiving and broadcasting of space channels against periodic subscriptions and providing internet services, and are recognised as and when the services are provided or rendered.

*Hospitality and real estate income*
Hospitality and real estate income includes hotel and rental income. Rental income is recognised on a straight-line basis over the lease term. Hotel income represents the invoiced value of goods and services provided.

*Manufacturing and distributing income*
Manufacturing industries income is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer usually on delivery of the goods and the amount of revenue can be measured reliably.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Non-current assets held for sale and discontinued operations**
The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell unless the items presented in the disposal group are not part of the measurement scope as defined in IFRS 5. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Equity accounting for investment in joint ventures ceases once classified as held for sale.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the interim condensed consolidated income statement.

**Leases**
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

*Group as a lessor*
Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

*Group as a lessee*
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

A property interest that is held by the Group under an operating lease may be classified and accounted for as an investment property when the property otherwise meets the definition of an investment property, evaluated property by property, and based on management's intention. The initial cost of a property interest held under a lease and classified as an investment properties is determined at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount is recognised as a liability.

**Impairment of non-financial assets**
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of non-financial assets (continued)**
The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated income statement, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

**Taxation**
*National Labour Support Tax (NLST)*
The Parent Company calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the period. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

*Kuwait Foundation for the Advancement of Sciences (KFAS)*
The Parent Company calculates the contribution to KFAS at 1% in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the 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.

*Zakat*
Contribution to Zakat is calculated at 1% of the profit of the Parent Company in accordance with the Ministry of Finance resolution No. 58/2007.

*Taxation on overseas subsidiaries*
Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate. Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax assets and liabilities are measured using tax rates and applicable legislation at the reporting date.

**Dividends on ordinary shares**
Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Parent Company's shareholders.

Dividends for the year that are approved after the consolidated statement of financial position date are disclosed as an event after the consolidated statement of financial position date.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

## 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fiduciary assets**
Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly are not included in the consolidated statement of financial position.

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

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

## 2.7 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

***Judgements***
In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

*Classification of financial assets - applicable from 1 January 2018*
The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Judgments are required in determining the business model at an appropriate level that best reflects an aggregated group or portfolio of assets which are managed together to achieve a particular business objective. The Group also applies judgment to assess if there is a change in business model in circumstances when the assets with in that business model are realised differently than the original expectations.

*Classification of financial assets - applicable before 1 January 2018*
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

*Impairment of equity financial assets available for sale - applicable before 1 January 2018*
The Group treats equity financial assets available for sale 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.

*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 judgment.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.7 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

***Judgements (continued)***
*Deferred tax assets*
Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

*Operating Lease – Group as lessor*
The Group has entered into commercial property leases on its investment properties portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

***Estimation uncertainty and assumptions***
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Impairment of goodwill and other intangibles with indefinite useful lives*
The Group determines whether goodwill and other intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use or fair value less cost to sell of the cash-generating units to which the goodwill and other intangibles with indefinite useful lives are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

*Expected Credit Losses on financial assets - applicable from 1 January 2018*
The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and/or
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

*Provision for credit losses – applicable before 1 January 2018*
The Group reviews its problematic loans and advances on a quarterly basis to assess whether a provision for credit losses should be recorded in the consolidated income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

*Collective impairment provision on loans and advances – applicable before 1 January 2018*
In addition to specific provisions against individually significant loans and advances, the Group also makes a collective impairment provision against loans and advances which is not specifically identified against a loan. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.7 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

***Estimation uncertainty and assumptions (continued)***
*Collective impairment provision on loans and advances – applicable before 1 January 2018 (continued)*
This internal grading take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

*Fair values of assets and liabilities including intangibles*
Considerable judgement by management is required in the estimation of the fair value of the assets including intangibles with definite and indefinite useful life, liabilities and contingent liabilities acquired as a result of business combination.

*Fair value measurement of financial instruments*
Where the fair value of financial assets recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

The determination of the cash flows and discount factors for unquoted equity financial assets requires significant estimation.

*Valuation of investment properties*
Fair value of investment properties are assessed by independent real estate appraisers. Two main methods used to determine the fair value of property interests in investment properties are; (a) formula based discounted cash flow analysis and (b) comparative analysis, as follows:

a) Formula based discounted cash flow, is based on a series of projected free cash flows supported by the terms of any existing lease and other contracts and discounted at a rate that reflects the risk of the asset.

b) Comparative analysis is based on the assessment made by an independent real estate appraiser using values of actual deals transacted recently by other parties for properties in a similar location and condition, and based on the knowledge and experience of the real estate appraiser.

In arriving at the estimates of market values as at 31 December 2018, valuers used their market knowledge and professional judgment and did not rely solely on historical transactional comparables. In these circumstances, there was a greater degree of uncertainty in estimating the market values of investment properties than would exist in a more active market.

The significant methods and assumptions used by valuers in estimating fair value of investment property are stated in Note 9.

*Techniques used for valuing investment properties*
The discounted cash flow method involves the projection of a series of periodic cash flows either to an operating property or a development property. To this projected cash flow series, an appropriate, market derived discount rate is applied to establish an indication of the present value of the income stream associated with the property. The calculated periodic cash flow is typically estimated as gross rental income less vacancy and collection losses and less operating expenses/outgoings. A series of periodic net operating incomes, along with an estimate of the reversion/terminal/exit value (which uses the traditional valuation approach) anticipated at the end of the projection period, are discounted to present value. The aggregate of the net present values equals the fair value of the property.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.7 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

***Estimation uncertainty and assumptions (continued)***
*Techniques used for valuing investment properties (continued)*
The Residual Method (or Hypothetical Development Approach) to estimating fair value is a combination of the Capitalisation (income) approach and a Cost approach (summation). The Residual Method is defined as: "A method of determining the value of a property which has potential for development, redevelopment or refurbishment. The estimated total cost of the work, including fees and other associated expenditures, plus allowance for interest, developer's risk and profit, is deducted from the gross value of the completed project. The resultant figure is then adjusted back to the date of valuation to give the residual value."

**2.8 TRANSITION DISCLOSURES**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied with effect from 1 January 2018, as described below:

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

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

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

The impact of adoption of IFRS 9 as at 1 January 2018 has been to decrease retained earnings by KD 129,877 thousand, decrease in non-controlling interest by KD 71,651 thousand, and to increase the fair value reserve by KD 9,206 thousand as follows:

| ***Impact on reclassification and re-measurements:*** | *Retained earnings* ***KD 000's*** | *Cumulative changes in fair value* ***KD 000's*** | *Non-controlling interests* ***KD 000's*** |
|---|---|---|---|
| Investment securities (debt) from amortised cost to FVOCI | **-** | **195** | **110** |
| Investment securities (debt) from available-for-sale to amortised cost | **-** | **744** | **418** |
| Investment securities (debt and equity) from available-for- sale to FVTPL | **(2,683)** | **3,283** | **3,035** |
| Investment securities (equity and debt) from available-for-sale to FVOCI | **(8,985)** | **4,905** | **(2,301)** |
| Impact on recognition of Expected Credit Losses on financial assets: | | | |
| Expected credit losses under IFRS 9 for debt financial assets at FVOCI | **(79)** | **79** | **-** |
| Expected credit losses under IFRS 9 for financial assets at amortised cost | **(118,130)** | **-** | **(72,913)** |
| Net impact under IFRS 9 on date of initial application of 1 January 2018 | **(129,877)** | **9,206** | **(71,651)** |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**2.8 TRANSITION DISCLOSURES (continued)**

***Classification of financial assets and financial liabilities on the date of initial application of IFRS 9***
The following table shows reconciliation of original measurement categories and carrying value in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

| ***Financial assets*** | ***Original classification under IAS 39*** | ***New classification under IFRS 9*** | ***Original carrying amount under IAS 39 KD '000'*** | ***Transition adjustments KD '000'*** | ***New carrying amount under IFRS 9 KD '000'*** |
|---|---|---|---|---|---|
| Cash in hand and banks | Loans and receivables | Amortised cost | 1,569,565 | (454) | 1,569,111 |
| Treasury bills, bonds and other debt securities | Loans & receivables | Amortised cost | 646,675 | 219,267 | 865,942 |
| Loans and advances | Loans & receivables | Amortised cost | 5,240,825 | (283,116) | 4,957,709 |
| Financial assets at fair value through profit or loss | Fair value through P&L | Fair value through P&L | 35,355 | 171,235 | 206,590 |
| Financial assets available for sale | Available for sale | Fair Value through OCI | 514,103 | (196,479) | 317,624 |
| Financial assets held to maturity | Held to maturity | Amortised cost | 77,597 | (77,597) | - |
| Other assets | Loans and receivables | Amortised cost | 447,200 | 521 | 447,721 |
| **Total financial assets** | | | **8,531,320** | **(166,623)** | **8,364,697** |

Other transition adjustments include share of ECL on loans and advances of investment in associates amounting to KD 358 thousand and other liabilities amounting to KD 25,341 thousand.

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**2.8 TRANSITION DISCLOSURES (continued)**

***Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9 (continued)***

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

| | *IAS 39 carrying amount as at 31 December 2017* | *Reclassification* | *Re-measurement* | *IFRS 9 carrying amount as at 1 January 2018* |
|---|---|---|---|---|
| | *KD 000's* | *KD 000's* | *KD 000's* | *KD 000's* |
| ***Financial assets at amortised cost*** | | | | |
| Cash in hand and at banks | | | | |
| Opening balance | 1,569,565 | - | - | - |
| Impairment allowance | - | - | (454) | - |
| Closing balance | 1,569,565 | - | (454) | 1,569,111 |
| ***Treasury bills, bonds and other debt securities*** | | | | |
| Opening balance | 646,675 | - | - | - |
| From financial assets held to maturity | - | 59,764 | - | - |
| From financial assets available for sale | - | 158,961 | - | - |
| Impairment allowance | - | - | (435) | - |
| Remeasurement | - | - | 977 | - |
| Closing balance | 646,675 | 218,725 | 542 | 865,942 |
| ***Loans and advances*** | | | | |
| Opening balance | 5,240,825 | - | - | - |
| To FVTPL | - | (118,140) | - | - |
| Impairment allowance | - | - | (164,976) | - |
| Closing balance | 5,240,825 | (118,140) | (164,976) | 4,957,709 |
| ***Held-to-maturity*** | | | | |
| Opening balance | 77,597 | - | - | - |
| To treasury bills, bonds and other debt securities | - | (59,764) | - | - |
| To FVOCI | - | (17,833) | - | - |
| Closing balance | 77,597 | (77,597) | - | - |

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**2.8 TRANSITION DISCLOSURES (continued)**

***Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9 (continued)***

| | *IAS 39 carrying amount as at 31 December 2017 KD 000's* | *Reclassification KD 000's* | *Re-measurement KD 000's* | *IFRS 9 carrying amount as at 1 January 2018 KD 000's* |
|---|---|---|---|---|
| ***Other assets*** | | | | |
| Opening balance | 447,200 | - | - | - |
| Impairment allowance | - | - | 521 | - |
| Closing balance | 447,200 | - | 521 | 447,721 |
| ***Financial asset available for sale*** | | | | |
| Opening balance | 514,103 | - | - | - |
| To FVOCI | - | (269,509) | - | - |
| To FVTPL | - | (85,633) | - | - |
| To treasury bills, bonds and other debt securities | - | (158,961) | - | - |
| Closing balance | 514,103 | (514,103) | - | - |
| ***FVOCI*** | | | | |
| Opening balance | - | - | - | - |
| From available-for-sale | - | 269,509 | (3,368) | - |
| From held to maturity | - | 17,833 | 306 | - |
| From FVTPL | - | 33,344 | - | - |
| Closing balance | - | 320,686 | (3,062) | 317,624 |
| ***Financial assets at fair value through profit or loss*** | | | | |
| Opening balance | 35,355 | - | - | - |
| From available-for-sale | - | 85,633 | - | - |
| From loans and advances | - | 118,140 | - | - |
| To FVOCI | - | (33,344) | 806 | - |
| Closing balance | 35,355 | 170,429 | 806 | 206,590 |

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 for cash facilities and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9.

| | *Loan loss provision under IAS 39/IAS 37 at 31 December 2017 KD 000's* | *Re-measurement KD 000's* | *ECLs under IFRS 9 at 1 January 2018 KD 000's* |
|---|---|---|---|
| ***Impairment allowance for:*** | | | |
| Loans and advances and held to maturity securities per IAS 39/ financial assets at amortised cost under IFRS 9 | 77,930 | 164,976 | 242,906 |
| Non-Cash Credit Facilities | 10,504 | 25,341 | 35,845 |
| Total | **88,434** | **190,317** | **278,751** |

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## 3 CASH IN HAND AND AT BANKS

| | *2018* *KD 000's* | *2017* *KD 000's* |
|---|---|---|
| Cash and bank balances | **1,053,464** | 1,127,545 |
| Deposits with original maturities up to three months | **1,061,772** | 432,225 |
| Expected credit losses | **(547)** | - |
| Cash and cash equivalents | **2,114,689** | 1,559,770 |
| Add: deposits with original maturities exceeding three months | **4,079** | 9,795 |
| | **2,118,768** | 1,569,565 |

## 4 LOANS AND ADVANCES

The composition of loans and advances, classified by type of borrower, is as follows:

| | *2018* *KD 000's* | *2017* *KD 000's* |
|---|---|---|
| Corporate | **4,019,005** | 4,082,278 |
| Banks and financial institutions | **324,215** | 612,012 |
| Retail | **497,187** | 624,465 |
| | **4,840,407** | 5,318,755 |
| Less: Allowance for ECL / provision for credit losses | **(205,080)** | (77,930) |
| | **4,635,327** | 5,240,825 |

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

| | ***Stage 1*** ***KD 000's*** | ***Stage 2*** ***KD 000's*** | ***Stage 3*** ***KD 000's*** | ***2018*** ***Total*** ***KD 000's*** |
|---|---|---|---|---|
| **Internal rating grade** | | | | |
| **Performing** | | | | |
| High grade | **1,229,603** | **186,989** | **-** | **1,416,592** |
| Standard grade | **2,597,668** | **474,325** | **-** | **3,071,993** |
| Past due but not impaired | **38,563** | **117,802** | **-** | **156,365** |
| **Non – performing** | | | | |
| Individually impaired | **-** | **-** | **195,457** | **195,457** |
| **Total** | **3,865,834** | **779,116** | **195,457** | **4,840,407** |

Following is the stage wise break-up of the gross carrying amount of loans and advances as of the date of transition to IFRS 9:

| | ***Stage 1*** ***KD 000's*** | ***Stage 2*** ***KD 000's*** | ***Stage 3*** ***KD 000's*** | ***2018*** ***Total*** ***KD 000's*** |
|---|---|---|---|---|
| Loans and advances | 4,388,410 | 717,808 | 212,537 | 5,318,755 |
| ECL allowances | (20,949) | (81,638) | (140,319) | (242,906) |
| **As at 1 January 2018** | 4,367,461 | 636,170 | 72,218 | 5,075,849 |

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**4 LOANS AND ADVANCES (continued)**

An analysis of changes in the ECL allowances in relation to loans and advances, as follows:

| | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| | *KD '000* | *KD '000* | *KD '000* | *KD '000* |
| ***ECL allowance*** | | | | |
| Balance at 1 January | **20,949** | **81,638** | **140,319** | **242,906** |
| Acquisition of a subsidiary | **53** | **-** | **3,231** | **3,284** |
| Charge / (recovery) during the year | **8,000** | **(17,898)** | **25,597** | **15,699** |
| Amounts written off during the year | **-** | **-** | **(50,794)** | **(50,794)** |
| Foreign exchange | **(1,055)** | **(5,559)** | **599** | **(6,015)** |
| **At 31 December 2018** | **27,947** | **58,181** | **118,952** | **205,080** |

An analysis of the allowance for impairment losses under IAS 39 /IAS 37 for loans and advances and non cash facilities for the year to 31 December 2017

| | *2017* |
|---|---|
| | *KD 000's* |
| As at 1 January | 125,890 |
| Exchange adjustments | (3,578) |
| Amounts written off | (56,345) |
| Provision for credit losses | 22,467 |
| As at 31 December | 88,434 |

Provision for credit losses (in the table above) includes provision for non-cash facilities amounting to KD 10,504 thousand. Provision for non-cash facilities is included in other liabilities (note 15).

**5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

| | ***2018*** | *2017* |
|---|---|---|
| | ***KD 000's*** | *KD 000's* |
| Equity securities | **10,846** | 29,724 |
| Unquoted equity securities | **7,723** | - |
| Quoted debt securities | **2,832** | 4,396 |
| Managed funds | **138,332** | 1,235 |
| Forfaiting assets | **105,332** | - |
| | **265,065** | 35,355 |

Refer to note 29.4.3 for geographical distribution of equity instruments and note 30 for fair value measurement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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**6 FINANCIAL ASSETS AVAILABLE FOR SALE/ FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

| | ***2018*** | *2017* |
|---|---|---|
| | ***KD 000's*** | *KD 000's* |
| ***Financial assets available for sale*** | | |
| **Quoted financial assets** | | |
| Equities | - | 42,175 |
| Debt securities | - | 270,846 |
| | - | 313,021 |
| **Unquoted financial assets** | | |
| Equities | - | 82,375 |
| Managed funds | - | 71,323 |
| Debt securities | - | 47,384 |
| | - | 201,082 |
| | - | 514,103 |
| ***Financial assets at fair value through other comprehensive income*** | | |
| **Quoted financial assets** | | |
| Equities | **32,709** | - |
| Debt securities | **118,291** | - |
| | **151,000** | - |
| **Unquoted financial assets** | | |
| Equities | **88,664** | - |
| Debt securities | **14,020** | - |
| | **102,684** | - |
| | **253,684** | - |

Refer note 29.4.3 for geographical distribution of equity instruments and note 30 for fair value measurement.

**7 OTHER ASSETS**

| | ***2018*** | *2017* |
|---|---|---|
| | ***KD 000's*** | *KD 000's* |
| Net accounts receivable | **123,253** | 155,288 |
| Accrued interest and other income receivable | **141,785** | 99,091 |
| Prepayments | **24,692** | 24,655 |
| Assets pending sale * | **91,900** | 88,007 |
| Other | **86,311** | 80,159 |
| | **467,941** | 447,200 |

* The assets pending sale are arising from the operating activities of the commercial banking subsidiaries of the Group. These assets are carried at lower of cost or net realizable value. The net realizable value of real estate assets included in assets pending for sale are based on valuations performed by accredited independent valuators by using market comparable method. As the significant valuation inputs used are based on unobservable market data these are classified under level 3 fair value hierarchy. However, the impact on the consolidated income statement would be immaterial if the relevant risk variables used to fair value were altered by 5%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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## 8 INVESTMENT IN ASSOCIATES

| *Name of company* | *Country of incorporation* | *Principal activities* | *Effective interest* **2018** | *Effective interest* 2017 | *Carrying value* **2018 KD 000's** | *Carrying value* *'Restated' 2017 KD 000's* |
|---|---|---|---|---|---|---|
| Qurain Petrochemical Industries Company K.S.C.P. ("QPIC") | Kuwait | Petrochemical activities | **31%** | 31% | **165,227** | 155,827 |
| Gulf Insurance Group K.S.C.P. ("GIG") | Kuwait | Insurance | **46%** | 46% | **73,174** | 73,369 |
| Advance Technology Company K.S.C.P. ("ATC") | Kuwait | Trading | **29%** | 29% | **44,626** | 43,089 |
| Abdali Boulevard Company P.S.C.("ABC") **(a)** | Jordan | Real estate | **-** | 40% | **-** | 36,396 |
| Burgan Equity Fund **(b)** | Kuwait | Fund | **-** | 20% | **-** | 13,978 |
| Al-Fujeira Real Estate Limited | U.A. E | Real estate | **50%** | 50% | **6,267** | 7,814 |
| Manafae Holding Company K.S.C.(Closed). | Kuwait | Investment | **38%** | 38% | **3,638** | 4,176 |
| Kandil Glass S.A.E. | Egypt | Manufacturing | **50%** | 50% | **2,816** | 2,643 |
| First Real Estate Investment Company K.S.C. (Closed) | Kuwait | Real estate | **20%** | 20% | **4,538** | 4,352 |
| United Capital Transport Company K.S.C. (Closed) | Kuwait | Services | **40%** | 40% | **2,811** | 4,538 |
| Kuwait Education Fund | Kuwait | Fund | **34%** | 34% | **41** | 4,266 |
| Kuwait Hotels Company K.S.C.P. ("KHC") | Kuwait | Hotels | **34%** | 34% | **2,203** | 2,256 |
| SSH Dar International Engineering Consultancy | Bahrain | Engineering | **29%** | 23% | **254** | 639 |
| Middle East Payment Services Co. | Jordan | Credit Card & ATM Services | **30%** | 30% | **2,305** | 2,296 |
| N.S.88 SPC | Bahrain | Real Estate | **20%** | 20% | **3,509** | 3,705 |
| Syria Gulf Bank S.A. **(e)** | Syria | Banking | **31%** | 31% | **-** | 1,217 |
| Arab Leadership Academy **(b)** | Kuwait | Education | **-** | 15% | **-** | 125 |
| Saidal Norah Manufacturing | Algeria | Manufacturing | **49%** | 49% | **254** | 255 |
| Al Thaniya Real Estate Company P.S.C | Jordan | Real Estate | **50%** | 50% | **9** | 9 |
| Insha'a Holding Company | Kuwait | Manufacturing | **40%** | 40% | **5,886** | 5,812 |
| Kamco Investment fund | Kuwait | Fund | **23%** | 23% | **7,387** | 6,865 |
| KAMCO Real Estate Yield Fund **(c)** | Kuwait | Real Estate | **30%** | - | **4,413** | - |
| Adhari Park Development Company B.S.C. (Closed) **(d)** | Bahrain | Financial Services | **20%** | - | **57** | - |
| FINACorp SA **(d)** | Tunisia | Financial Services | **49%** | - | **67** | - |
| Latam Factors S.A. **(b)** | Chile | Factoring | **-** | 51% | **-** | 1,678 |
| | | | | | **329,482** | 375,305 |

(a) During the year, the one of the subsidiary of the Group "URC" entered into a share purchase agreement ("SPA") with Abdalli Investment and Development Company P.S.C. ("AID") for the sale of its 40% equity interest in the associate "ABC" and acquisition of 40% equity interest in Abdalli Mall Company ("AMC") with an additional cash consideration of KD 8,572 thousand.

As a result of abovementioned transaction, the Group acquired additional 40% equity interest in AMC. Upon acquisition of additional 40% interest in AMC, the Group recognised KD 12,083 thousand in other reserves representing the excess consideration over the non-controlling interest of ABC.

(b) During the year, Group sold/reclassified its equity interest in these entities upon loss of significant influence.
(c) During the year the Group additionally acquired its equity interest in this entity and reclassified its investment from financial assets at fair value through profit or loss to investment in associate.
(d) During the year, Group acquired its equity interest in these entities.
(e) During the year the Group impaired its investment in associate.

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**8 INVESTMENT IN ASSOCIATES (continued)**

Investment in associates include quoted associates with a carrying value of KD 285,230 thousand (2017: KD 274,541 thousand) having quoted market value of KD 217,273 thousand (represents QPIC: KD 116,838 thousand, GIG: KD 53,957 thousand, ATC: KD 43,605 thousand and KHC: KD 2,873 thousand) (2017: KD 228,058 thousand (represents QPIC: KD 106,777 thousand, GIG: KD 67,879 thousand, ATC: KD 47,966 thousand and KHC: KD 5,436 thousand). In accordance with IAS 36, 'Impairment of Assets', the Group's recoverable amount of the above associates (i.e. value in use) was in excess of their carrying values and accordingly no impairment was recognised against these investments during the year.

Summarized financial information of associates that are individually material to the Group before inter-company eliminations is as follows:

| ***31 December 2018*** | ***QPIC KD 000's*** | ***GIG KD 000's*** | ***ATC * KD 000's*** |
|---|---|---|---|
| **Associates' statement of financial position:** | | | |
| Current assets | **140,434** | **253,278** | **254,465** |
| Non-current assets | **530,085** | **275,982** | **39,803** |
| Current liabilities | **51,796** | **217,558** | **200,845** |
| Non-current liabilities | **82,510** | **199,279** | **36,491** |
| Equity | **536,213** | **112,423** | **56,932** |
| Equity attributable to shareholders of associates | **387,506** | **89,140** | **56,932** |
| Group's ownership interest | **31%** | **46%** | **29%** |
| Proportion of equity attributable to Group's ownership interest ** | **120,127** | **41,004** | **16,510** |
| **Associates' revenue and results:** | | | |
| Income | **222,164** | **166,721** | **162,705** |
| Total profit for the year | **47,816** | **14,663** | **8,379** |
| Group's share of the profit attributable to the equity holders | **10,864** | **5,477** | **2,436** |
| Dividends received during the year | **4,544** | **2,471** | **872** |
| Group's share of contingent liabilities and commitments | **5,084** | **7,544** | **30,976** |

| *31 December 2017* | *QPIC KD 000's* | *'Restated' GIG KD 000's* | *ATC * KD 000's* |
|---|---|---|---|
| Associates' statement of financial position: | | | |
| Current assets | 128,470 | 255,239 | 193,801 |
| Non-current assets | 501,121 | 237,578 | 32,229 |
| Current liabilities | 60,023 | 214,452 | 150,249 |
| Non-current liabilities | 78,831 | 178,396 | 24,134 |
| Equity | 490,737 | 99,969 | 51,647 |
| Equity attributable to shareholders of associates | 356,873 | 81,605 | 51,647 |
| Group's ownership interest | 31% | 46% | 29% |
| Proportion of equity attributable to Group's ownership interest ** | 110,631 | 37,538 | 14,978 |
| Associates' revenue and results: | | | |
| Income | 207,519 | 148,463 | 143,390 |
| Total profit for the year | 52,586 | 10,765 | 7,368 |
| Group's share of the profit attributable to the equity holders | 10,720 | 4,735 | 2,141 |
| Dividends received during the year | 3,570 | 3,295 | 654 |
| Group's share of contingent liabilities and commitments | 5,349 | 7,974 | 33,265 |

*Income, profit, and balance sheet items are based on 12 months ending 30 September 2018 and 30 September 2017.

** Difference between carrying value and proportion of equity attributable to Group's ownership interest materially represents goodwill.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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## 8 INVESTMENT IN ASSOCIATES (continued)

Summarized financial information of all the individually immaterial associates before inter-company eliminations is as follows:

| | ***2018*** ***KD 000's*** | *2017* *KD 000's* |
|---|---|---|
| **Associates' statement of financial position:** | | |
| Total assets | **343,997** | 320,451 |
| Total liabilities | **190,903** | 130,007 |
| Equity | **153,094** | 190,444 |
| **Associates' revenue and results:** | | |
| Income | **75,157** | 86,584 |
| Total loss for the year | **(5,715)** | (16,801) |

## 9 INVESTMENT PROPERTIES

| | ***2018*** ***KD 000's*** | *2017* *KD 000's* |
|---|---|---|
| Land for development | **178,775** | 76,707 |
| Projects under construction | **98,021** | 97,661 |
| Developed properties | **348,613** | 348,578 |
| | **625,409** | 522,946 |

The movement in investment properties during the year was as follows:

| | ***2018*** ***KD 000's*** | *2017* *KD 000's* |
|---|---|---|
| As at 1 January | **522,946** | 428,914 |
| Acquisition of Subsidiary (note 24) | **657** | - |
| Additions | **92,300** | 88,504 |
| Disposals | **(924)** | (1,482) |
| Change in fair value (note 18) | **9,640** | 9,554 |
| Exchange adjustments | **790** | (2,544) |
| **As at 31 December** | **625,409** | 522,946 |

Valuation of investment properties were conducted as at 31 December 2018 by independent appraisers with a recognized and relevant professional qualification and recent experience of the location and category of investment property being valued. The discounted future cash flow method or property market value method have been used as deemed appropriate considering the nature and usage of the property.

Profit related to developed properties carried at fair value are as follows:

| | ***2018*** ***KD 000's*** | *2017* *KD 000's* |
|---|---|---|
| Rental income | **28,234** | 28,450 |
| Direct operating expenses | **(8,866)** | (6,895) |
| **Profit arising from investment properties carried at fair value** | **19,368** | 21,555 |

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**9 INVESTMENT PROPERTIES (continued)**

Included under investment properties are buildings constructed on land leased from the Government of Kuwait amounting to KD 97,703 thousand (2017: KD 100,633 thousand). The lease periods for the plots of land leased from the Government of Kuwait and others range from 1 to 50 years.

**Fair value hierarchy**
The fair value measurement of investment properties has been categorized as level 3 fair value based on inputs to the valuation technique used.

The following main inputs have been used for valuations as at the reporting date:

| | ***Investment properties*** | | | |
|---|---|---|---|---|
| | ***Office properties*** | | ***Retail properties*** | |
| | ***2018*** | *2017* | ***2018*** | *2017* |
| | *%* | *%* | *%* | *%* |
| Average net initial yield | **10** | 10 | **10** | 10 |
| Reversionary yield | **11** | 11 | **11** | 11 |
| Inflation rate | **4** | 3 | **4** | 3 |
| Long-term vacancy rate | **10** | 10 | **10** | 10 |
| Long-term growth in real rental rates | **3** | 3 | **3** | 3 |

**Sensitivity analysis**
The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of investment properties.

| **Significant unobservable inputs** | **Sensitivity** | ***2018*** **Impact on fair value** ***KD 000's*** | *2017* Impact on fair value *KD 000's* |
|---|---|---|---|
| Average net initial yield | ± 1% | **+30,171**<br>**-29,553** | +31,069<br>-30,120 |
| Reversionary yield | ± 1% | **+23,973**<br>**-21,863** | +24,996<br>-22,309 |
| Inflation rate | ± 25 basis points | **+4,753**<br>**-5,628** | +5,041<br>-6,041 |
| Long-term vacancy rate | ± 1% | **-3,816**<br>**+3,987** | -3,932<br>+4,417 |
| Long-term growth in real rental rates | ± 1% | **+7,660**<br>**-7,684** | +7,866<br>-7,875 |

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**10 INTANGIBLE ASSETS**

| | *Goodwill KD 000's* | *Other intangibles KD 000's* | *Total KD 000's* |
|---|---|---|---|
| **Gross carrying amount:** | | | |
| As at 1 January 2018 | 185,487 | 231,064 | 416,551 |
| Effect of PPA (Note 24) | - | 4,524 | 4,524 |
| Additions | - | 1,334 | 1,334 |
| Disposal | - | (752) | (752) |
| Exchange adjustment | (879) | 239 | (640) |
| **As at 31 December 2018** | **184,608** | **236,409** | **421,017** |
| **Accumulated amortisation:** | | | |
| As at 1 January 2018 | - | (87,034) | (87,034) |
| Charge for the year | - | (5,490) | (5,490) |
| **As at 31 December 2018** | **-** | **(92,524)** | **(92,524)** |
| **Net carrying amount:** | | | |
| **As at 31 December 2018** | **184,608** | **143,885** | **328,493** |

| | *Goodwill KD 000's* | *Other intangibles KD 000's* | *'Restated' Total KD 000's* |
|---|---|---|---|
| Gross carrying amount: | | | |
| As at 1 January 2017 | 163,702 | 225,441 | 389,143 |
| Acquisition of subsidiary (note 24) | 23,063 | 4,718 | 27,781 |
| Additions | - | 1,568 | 1,568 |
| Exchange adjustment | (1,278) | (663) | (1,941) |
| As at 31 December 2017 | 185,487 | 231,064 | 416,551 |
| Accumulated amortisation: | | | |
| As at 1 January 2017 | - | (79,991) | (79,991) |
| Charge for the year | - | (7,043) | (7,043) |
| As at 31 December 2017 | - | (87,034) | (87,034) |
| Net carrying amount: | | | |
| As at 31 December 2017 | 185,487 | 144,030 | 329,517 |

***Goodwill and intangible assets with indefinite life***

The carrying value of goodwill and intangible assets with indefinite life are tested for impairment on an annual basis (or more frequently if evidence exists that goodwill and intangible assets with indefinite life might be impaired) by estimating the recoverable amount of the cash-generating unit ("CGU") to which these items are allocated using value-in-use calculations unless fair value based on active market price is higher than the carrying value of the CGU. The carrying amount of goodwill and intangible assets with indefinite life allocated to each cash-generating unit is disclosed under segment information (note 28). The recoverable amount of each segment unit has been determined based on a value in use calculation, using cash flow projections approved by senior management covering a five-year period. The discount rates used range from 10% to 22% (2017: from 9.7% to 20%) applied to cash flow projections over a five-year period. Cash flows beyond the five-year period are extrapolated using a projected growth rate in a range of 3% to 5% (2017: from 3% to 5%).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**10 INTANGIBLE ASSETS (continued)**

The calculation of value in use for each segment unit is sensitive to the following assumptions:
- Interest margins;
- Discount rates;
- Market share assumptions
- Projected growth rates used to extrapolate cash flows beyond the budget period; and
- Inflation rates.

*Interest margins:*
Interest margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated market conditions.

*Discount rates:*
Discount rates reflect management's estimate of return on capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital (WACC).

*Market share assumptions:*
These assumptions are important because, as well as using industry data for growth rates, management assess how the unit's relative position to its competitors might change over the budget period.

*Projected growth rates:*
Assumptions are based on published industry research.

*Inflation rates:*
Estimates are obtained from published indices for countries where the Group operates.

***Sensitivity to changes in assumptions***
Management has determined that the potential effect of using reasonably possible alternatives as inputs to the valuation model does not materially affect the amount of goodwill and intangibles using less favorable assumptions.

The net carrying amount and remaining useful life of intangible assets is as follows:

| | ***Remaining useful life as at 31 December 2018*** | ***2018 KD 000's*** | *2017 KD 000's* |
|---|---|---|---|
| *Intangibles with indefinite life:* | | | |
| License and brand name | Indefinite | **97,056** | 95,956 |
| *Intangibles with definite life:* | | | |
| Licenses | 1 to 19.5 years | **29,344** | 31,977 |
| Customer contracts, core deposits and student relationships | Up to 10 years | **17,485** | 16,097 |
| | | **143,885** | 144,030 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018

## 11 MATERIAL PARTLY - OWNED SUBSIDIARIES

The Group has concluded that Burgan, URC and JKB (2017: Burgan, URC and JKB) are the only subsidiaries with non-controlling interests that are material to the Group. Financial information of subsidiaries that have material non-controlling interests are provided below:

**Accumulated balances of material non-controlling interests:**

| | ***2018*** ***KD 000's*** | *2017* *KD 000's* |
|---|---|---|
| Burgan | **337,511** | 340,152 |
| URC | **28,404** | 66,620 |
| JKB | **93,143** | 101,241 |

**Profit allocated to material non-controlling interests:**

| | ***2018*** ***KD 000's*** | *2017* *KD 000's* |
|---|---|---|
| Burgan | **42,932** | 35,326 |
| URC | **(2,286)** | (81) |
| JKB | **12,317** | 2,811 |

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

**Summarised income statement for the year ended 31 December:**

| | ***2018*** | | | *2017* | | |
|---|---|---|---|---|---|---|
| | ***Burgan*** ***KD 000's*** | ***URC*** ***KD 000's*** | ***JKB*** ***KD 000's*** | *Burgan* *KD 000's* | *URC* *KD 000's* | *JKB* *KD 000's* |
| Income | **459,936** | **100,973** | **77,171** | 412,674 | 92,812 | 70,870 |
| Expenses | **(367,829)** | **(109,494)** | **(53,174)** | (332,837) | (89,751) | (52,568) |
| Income tax | **(8,413)** | **(392)** | **(5,974)** | (10,767) | (1,582) | (6,168) |
| **Profit (loss) for the year** | **83,694** | **(8,913)** | **18,023** | 69,070 | 1,479 | 12,134 |
| **Total comprehensive income/(loss)** | **42,589** | **31,620** | **16,405** | 37,694 | (2,035) | 12,390 |
| Attributable to non controlling interests | **711** | **4,785** | **-** | 2,237 | (1,687) | - |
| Dividends paid to non controlling interests | **6,011** | **-** | **4,168** | 6,032 | 1,476 | 4,154 |

**Summarised statement of financial position as at 31 December:**

| | ***2018*** | | | *2017* | | |
|---|---|---|---|---|---|---|
| | ***Burgan*** ***KD 000's*** | ***URC*** ***KD 000's*** | ***JKB*** ***KD 000's*** | *Burgan* *KD 000's* | *URC* *KD 000's* | *JKB* *KD 000's* |
| Total assets | **7,312,080** | **616,831** | **1,163,853** | 7,415,212 | 602,431 | 1,205,759 |
| Total liabilities | **6,364,600** | **399,949** | **973,304** | 6,547,552 | 371,296 | 1,006,236 |
| **Equity** | **947,480** | **216,882** | **190,549** | 867,660 | 231,135 | 199,523 |
| **Attributable to:** | | | | | | |
| Equity holders of material subsidiaries | **752,336** | **193,882** | **190,549** | 672,412 | 186,727 | 199,523 |
| Perpetual capital securities | **144,025** | **-** | **-** | 144,025 | - | - |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

## 11 MATERIAL PARTLY - OWNED SUBSIDIARIES (continued)

**Summarised cash flow information for year ended 31 December:**

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Burgan KD 000's** | **URC KD 000's** | **JKB KD 000's** | Burgan KD 000's | URC KD 000's | JKB KD 000's |
| Operating | **23,062** | **17,267** | **(49,657)** | 281,394 | 3,887 | 11,077 |
| Investing | **75,588** | **(4,457)** | **28,446** | (94,563) | (13,744) | 33,874 |
| Financing | **169,863** | **(7,925)** | **(6,793)** | (131,090) | 7,107 | 9,299 |
| **Net increase (decrease) in cash and cash equivalents** | **268,513** | **4,885** | **(28,004)** | 55,741 | (2,750) | 54,250 |

## 12 LOANS PAYABLE

| | **2018 KD 000's** | 2017 KD 000's |
|---|---|---|
| ***By the Parent Company:*** | | |
| Loans with maturity above 1 year | - | - |
| Loans with maturity within 1 year | - | 42,053 |
| | - | 42,053 |
| ***By subsidiaries:*** | | |
| Loans with maturity within 1 year | **752,016** | 535,834 |
| Loans with maturity above 1 year | **509,871** | 389,965 |
| | **1,261,887** | 925,799 |
| Less: inter-group borrowings | **(566,676)** | (464,712) |
| | **695,211** | 503,140 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

## 13 BONDS

| | **2018** | 2017 |
|---|---|---|
| | **KD 000's** | KD 000's |
| ***Issued by the Parent Company:*** | | |
| Fixed interest of 5.25% per annum and maturing on 28 December 2024 | **35,620** | 35,568 |
| Floating interest of 2.25% per annum above the CBK discount rate and maturing on 28 December 2024 | **63,325** | 63,232 |
| Fixed rate bond at 5.50% per annum and maturating on 8 November 2023 | **13,898** | - |
| Floating rate bonds at 2.25% plus CBK discount rate (Capped at 6.5%) per annum and maturing on 8 November 2023 | **85,367** | - |
| ***Issued by subsidiaries:*** | | |
| Fixed interest of 5.65% per annum and maturing on 27 December 2022 * | **-** | 35,210 |
| Floating interest of 3.90% per annum above the CBK discount rate (capped at 6.65% per annum) and maturing on 27 December 2022 * | **-** | 37,199 |
| Fixed interest of 5.75% per annum and matured on 24 June 2018 | **-** | 36,450 |
| Floating interest of 3.25% per annum above the CBK discount rate and matured on 24 June 2018 | **-** | 23,550 |
| Fixed interest of 5.75% per annum and maturing on 19 April 2023 | **32,150** | - |
| Floating interest of 2.5% per annum above the CBK discount rate and maturing on 19 April 2023 | **27,850** | - |
| Fixed interest of 6% per annum and maturing on 9 March 2026 | **29,841** | 29,805 |
| Floating interest of 3.95% per annum above the CBK discount rate (capped at 7% per annum) and maturing on 9 March 2026 | **69,299** | 69,215 |
| Fixed interest of 4.125% per annum and maturing 30 December 2021 | **99,624** | - |
| Fixed interest of 6% per annum and maturing on 26 July 2023 | **14,900** | - |
| Floating interest of 2.75% per annum above the CBK discount rate and maturing on 26 July 2023 | **25,100** | - |
| | **496,974** | 330,229 |
| Less: inter-group eliminations | **(24,000)** | (9,000) |
| | **472,974** | 321,229 |

* Subordinated bonds issued in 2012, callable at the option of the bank after 5 years from the date of issuance, have been prepaid during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**14 MEDIUM TERM NOTES**

| | *2018* **KD 000's** | *2017* *KD 000's* |
|---|---|---|
| ***Euro medium term notes (EMTN) issued by the Parent Company through a SPE:*** | | |
| Fixed rate notes amounting to US$ 500 million having a term of 10 years maturing on 23 February 2027 and carrying a coupon interest rate of 4.5% per annum payable on a semiannual basis. The notes are listed on the London Stock Exchange. | **147,956** | 146,840 |
| Fixed rate notes amounting to US$ 500 million having a term of 10 years maturing on 15 July 2020 and carrying a coupon interest rate of 9.375% payable on a semiannual basis. The notes are listed on the London Stock Exchange. | **151,213** | 150,189 |
| Fixed rate notes amounting to US$ 233 million (originally US$ 500 million) having a term of 5 years maturing on 5 February 2019 and carrying a coupon interest rate of 4.8% payable on a semiannual basis. The notes are listed on the London Stock Exchange. * | **70,602** | 70,172 |
| Fixed rate notes amounting to US$ 500 million having a term of 7 years maturing on 15 March 2023 and carrying a coupon interest rate of 5% per annum payable on a semiannual basis. The notes are listed on the London Stock Exchange. | **151,650** | 150,875 |
| ***Issued by subsidiaries through SPEs:*** | | |
| Fixed rate notes amounting to US$ 500 million having a term of 5 years maturing on 14 September 2021 and carrying a coupon interest rate of 3.125%. The notes are listed on the Irish Stock Exchange. | **150,852** | 149,842 |
| | **672,273** | 667,918 |
| Less: inter-group eliminations | **(7,293)** | (7,537) |
| | **664,980** | 660,381 |

* The notes matured and was repaid subsequent to the year end.

**15 OTHER LIABILITIES**

| | *2018* **KD 000's** | *2017* *KD 000's* |
|---|---|---|
| Accounts payable | **287,681** | 272,023 |
| Accrued interest and expenses | **168,791** | 129,300 |
| Taxation payable | **10,395** | 15,604 |
| Others | **113,036** | 88,109 |
| | **579,903** | 505,036 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

## 16 SHARE CAPITAL, SHARE PREMIUM, TREASURY SHARES, RESERVES, APPROPRIATIONS AND PERPETUAL CAPITAL SECURITIES

### a) Share capital

| | *2018* | *2017* |
|---|---|---|
| | ***KD 000's*** | *KD 000's* |
| Authorised share capital (shares of 100 fils each) | **200,000** | 200,000 |
| Issued and fully paid up capital (shares of 100 fils each) * | **154,725** | 147,357 |

* This comprises 1,049,620,700 shares (31 December 2017: 1,049,620,700 shares) which are fully paid up in cash, whereas 497,630,638 shares (31 December 2017: 423,952,003 shares) were issued as bonus shares.

### b) Share premium
The share premium is not available for distribution.

### c) Treasury shares

| | ***2018*** | *2017* |
|---|---|---|
| Number of treasury shares | **146,921,701** | 131,027,237 |
| Percentage of capital | **9.50%** | 8.89% |
| Market value – KD 000's | **30,560** | 43,894 |

Reserves equivalent to the cost of the treasury shares held are not available for distribution.

### d) Statutory reserve
In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is required to be transferred to the statutory reserve. The Parent Company may resolve to discontinue such annual transfers, when the reserve exceeds 50% of share capital. The statutory reserve is not available for distribution except in certain circumstances stipulated by Law and the Parent Company's Articles of Association. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

Since the statutory reserve exceeds 50% of the Parent company's issued capital, the Board of Directors of the Parent Company resolved to discontinue the transfer to statutory reserve, which was approved by the General Assembly of the Company held on 5 April 2017.

### e) Voluntary reserve
In accordance with the Parent Company's Articles of Association, 10% of profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' Annual General Assembly upon a recommendation by the Board of Directors. There is no restriction on distribution of this reserve. As per the decision of the Board of Directors meeting held on 7 March 2017, the Board recommended to Shareholders' General Assembly to discontinue the transfer to voluntary reserve, which was approved by the General Assembly of the Parent Company held on 5 April 2017.

### f) Dividend
The Board of Directors has recommended the distribution of cash dividend of 12 fils per share (2017: 10 fils per share) on outstanding shares (excluding treasury shares) and a stock dividend (bonus shares) of Nil (2017: 5%) in respect of the year ended 31 December 2018. Subject to being approved by the shareholders' Annual General Assembly, the dividend shall be payable to the shareholders after obtaining necessary regulatory approvals registered in the Parent Company's records as of the record date. Dividends for 2017 were approved at the Annual General Assembly of the shareholders held on 4 April 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**16 SHARE CAPITAL, SHARE PREMIUM, TREASURY SHARES, RESERVES, APPROPRIATIONS AND PERPETUAL CAPITAL SECURITIES (continued)**

**g) Perpetual capital securities issued by a subsidiary of the Group**

On 30 September 2014, one of the subsidiaries of the Group - Burgan Bank S.A.K. ("BB") issued perpetual capital securities (the securities) through Burgan Tier 1 Financing Limited (a newly incorporated special purpose company with limited liability in the Dubai International Financial Centre), amounting to USD 500,000 thousand (equivalent to KD 144,025 thousand). (2016: USD 500,000 thousand equivalent to KD 144,025 thousand). Securities are unconditionally and irrevocably guaranteed by BB and constitute direct, unconditional, subordinated and unsecured obligations and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The securities have no maturity date. They are redeemable by the subsidiary of the Group at its discretion after 30 September 2019 (the "first call date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The securities bear interest on their nominal amount from the issue date to the first call date at a fixed annual rate of 7.25% per annum. Thereafter the interest rate will be reset at five year intervals. Interest is payable semi-annually in arrears and treated as a deduction from equity and non-controlling interest. The semi-annual interest payments were paid during the year.

BB at its sole discretion may elect not to distribute interest as stipulated and this is not considered an event of default.

On 28 March 2016, one of the subsidiaries of the Group, United Gulf Bank B.S.C. ("UGB") issued perpetual capital securities amounting to USD 33,000 thousand (equivalent to KD 9,961 thousand). Certain other subsidiaries of the Group subscribed to these securities amounting to USD 25,000 thousand (equivalent to KD 7,546 thousand) which were eliminated on consolidation.

**17 EMPLOYEE STOCK OPTION PLAN RESERVE**

The Parent Company granted equity-settled stock options to eligible employees. These shares vest over a period of three years from the grant date. The vesting of the stock options is dependent on eligible employees remaining in service till the end of the vesting period. The fair value of stock options granted is amortized over the vesting period.

The following table illustrates the number, weighted average exercise prices and the movement in the stock options during the year:

| | ***2018*** | | *2017* | |
|---|---|---|---|---|
| | ***Number of shares*** | ***Weighted average exercise price KD*** | *Number of shares* | *Weighted average exercise price KD* |
| Outstanding at 1 January | **23,713,316** | **0.397** | 19,341,144 | 0.378 |
| Granted during the year | **7,776,120** | **0.335** | 5,200,313 | 0.475 |
| Stock dividend granted during the year | **1,574,469** | **-** | - | - |
| Exercised during the year | **-** | **-** | (502,999) | 0.362 |
| Expired / forfeited during the year | **(5,817,002)** | **0.609** | (325,142) | 0.530 |
| Outstanding at 31 December | **27,246,903** | **0.311** | 23,713,316 | 0.397 |
| Stock options exercisable as at 31 December | **13,427,423** | | 14,073,805 | |

The Parent Company recognized an expense of KD 738 thousand (2017: KD 822 thousand) relating to equity-settled share-based payment transactions during the year.

The weighted average remaining contractual life of the stock options outstanding as at 31 December 2018 is 1.81 years (2017: 1.77 years). The weighted average fair value of stock options granted during the year was KD 456 thousand (2017: KD 247 thousand). The range of exercise prices for options outstanding at the end of the year was KD 0.551 to KD 0.335 (2017: KD 0.665 to KD 0.475).

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**17 EMPLOYEE STOCK OPTION PLAN RESERVE (continued)**

The following table lists the inputs to the Black-Scholes option pricing model for the stock options granted during 2018 and 2017:

| | ***2018*** | *2017* |
|---|---|---|
| Dividend yield (%) | **3.0** | 5.0 |
| Expected volatility (%) | **33.4** | 18.6 |
| Risk free interest rate (%) | **3.0** | 2.5 |
| Expected life of option (years) | **3** | 3 |
| Stock price on the date of grant (fils) | **335** | 500 |
| Weighted average exercise price of stock options granted (fils) | **335** | 475 |

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the stock options is indicative of future trends, which may not necessarily be the actual outcome.

**18 INVESTMENT INCOME**

| | ***2018 KD 000's*** | *2017 KD 000's* |
|---|---|---|
| **Financial assets at fair value through profit or loss** | | |
| Gain on sale | **2,947** | 261 |
| Unrealised gain | **1,995** | 8,078 |
| | **4,942** | 8,339 |
| ***Other investment income*** | | |
| Change in fair value of investment properties (note 9) | **9,640** | 9,554 |
| Gain on sale of financial assets available for sale | **-** | 5,213 |
| Loss on sale of debt instruments at fair value through other comprehensive income | **(395)** | - |
| Dividend income | **15,094** | 4,484 |
| Gain on sale of investment in associates | **140** | 739 |
| Gain on partial sale of investment in a media joint venture | **-** | 38,517 |
| Gain on revaluation of previously held interest (note 24) | **-** | 4,280 |
| Loss on sale of investment properties | **(84)** | (99) |
| Net loss on deemed disposal /acquisition of investment in associates | **-** | (128) |
| Bargain gain on acquisition of a subsidiary (note 24) | **7,238** | - |
| | **31,633** | 62,560 |
| | **36,575** | 70,899 |

**19 FEES AND COMMISSION INCOME**

| | ***2018 KD 000's*** | *2017 KD 000's* |
|---|---|---|
| Fee from fiduciary activities | **2,395** | 4,663 |
| Credit related fees and commission | **29,495** | 37,146 |
| Advisory fees | **7,942** | 2,988 |
| Other fees | **21,020** | 8,198 |
| | **60,852** | 52,995 |

**20 GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses include staff cost for the year ended 31 December 2018 amounting to KD 99,795 thousand (2017: KD 94,466 thousand).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

## 21 TAXATION

| | *2018* *KD 000's* | *2017* *KD 000's* |
|---|---|---|
| Taxation arising from overseas subsidiaries | **10,395** | 15,604 |
| | **10,395** | 15,604 |

Components of taxation arising from overseas subsidiaries are as follows:

| | *2018* *KD 000's* | *2017* *KD 000's* |
|---|---|---|
| Current tax | **12,726** | 15,546 |
| Deferred tax | **(2,331)** | 58 |
| | **10,395** | 15,604 |

The tax rate applicable to the taxable subsidiary companies is in the range of 10% to 35% (2017: 10% to 25%) whereas the effective income tax rate for the year ended 31 December 2018 is in the range of 12% to 27% (2017: 10% to 40%). For the purpose of determining the taxable results for the year, the accounting profit of the overseas subsidiary companies were adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. The adjustments are based on the current understanding of the existing laws, regulations and practices of each overseas subsidiary companies jurisdiction.

Deferred tax assets / liabilities are included as part of other assets / liabilities in the consolidated financial statements.

## 22 EARNINGS (LOSS) PER SHARE

***Basic:***
Basic earnings (loss) per share is computed by dividing the profit (loss) for the year attributable to equity holders of the Parent Company after interest payment on perpetual capital securities by the weighted average number of shares outstanding during the year, as follows:

| | *2018* *KD 000's* | *2017* *KD 000's* |
|---|---|---|
| ***Basic earnings:*** | | |
| Profit for the year attributable to the equity holders of the Parent Company from continuing operations | **51,247** | 53,751 |
| Loss for the year attributable to the equity holders of the Parent Company from discontinued operation | **(22,968)** | (30,179) |
| Profit for the year attributable to the equity holders of the Parent Company | **28,279** | 23,572 |
| Less: interest payment on perpetual capital securities attributable to the equity holders of the Parent Company | **(7,247)** | (7,321) |
| Profit for the year attributable to the equity holders of the Parent Company after interest payment on perpetual capital securities | **21,032** | 16,251 |
| | ***Shares*** | *Shares* |
| ***Number of shares outstanding:*** | | |
| Weighted average number of paid up shares | **1,547,251,338** | 1,547,251,338 |
| Weighted average number of treasury shares | **(146,046,660)** | (135,489,140) |
| Weighted average number of outstanding shares | **1,401,204,678** | 1,411,762,198 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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**22 EARNINGS (LOSS) PER SHARE (continued)**

***Basic:***

| | | |
|---|---|---|
| | ***Fils*** | *Fils* |
| Basic earnings per share | **15.01** | 11.51 |
| Basic earnings per share from continuing operations | **31.40** | 32.89 |
| Basic loss per share from discontinued operation | **(16.39)** | (21.38) |

***Diluted:***
Diluted earnings (loss) per share is calculated by dividing the profit (loss) for the year attributable to the equity holders of the Parent Company after interest payment on perpetual capital securities adjusted for the effect of decrease in profit due to exercise of potential ordinary shares of subsidiaries by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all employees stock options. The Parent Company has outstanding share options, issued under the Employee Stock Options Plan (ESOP), which have a dilutive effect on earnings.

| | ***2018*** ***KD 000's*** | *2017* *KD 000's* |
|---|---|---|
| ***Diluted earnings:*** | | |
| Profit for the year attributable to the equity holders of the Parent Company from continuing operation | **51,247** | 53,751 |
| Loss for the year attributable to the equity holders of the Parent Company from a discontinued operation | **(22,968)** | (30,179) |
| Profit for the year attributable to the equity holders of the Parent Company | **28,279** | 23,572 |
| Less: interest payment on perpetual capital securities attributable to the equity holders of the Parent Company | **(7,247)** | (7,321) |
| Profit for the year attributable to the equity holders of the Parent Company after interest payment on perpetual capital securities | **21,032** | 16,251 |

| | | |
|---|---|---|
| | ***Shares*** | *Shares* |
| ***Number of shares outstanding:*** | | |
| Weighted average number of outstanding shares | **1,401,204,678** | 1,411,762,198 |
| | ***Fils*** | *Fils* |
| Diluted earnings per share | **15.01** | 11.51 |
| Diluted earnings per share from continuing operations | **31.40** | 32.89 |
| Diluted loss per share from discontinued operation | **(16.39)** | (21.38) |

The effect of share options on issue has not been considered in the computation of diluted earnings (loss) per share as the result is anti-dilutive.

Basic and diluted earnings (loss) per share for the comparative year presented has been adjusted to reflect the adjustments of the bonus shares (Note 16f).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

## 23 RELATED PARTY TRANSACTIONS

These represent transactions with related parties, i.e. major shareholder, associates, 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. Related party balances and transactions consist of the following:

| **2018** | *Major shareholder KD 000's* | *Associates KD 000's* | *Others KD 000's* | ***Total KD 000's*** |
|---|---|---|---|---|
| ***Consolidated statement of financial position:*** | | | | |
| Loans and advances * | - | 21,057 | 346,357 | **367,414** |
| Other assets | 2,215 | 946 | 479 | **3,640** |
| Due to banks and other financial institutions * | - | 14,700 | 20,828 | **35,528** |
| Deposit from customers * | 68,999 | 15,380 | 8,796 | **93,175** |
| Medium term notes | - | 3,033 | - | **3,033** |
| Other liabilities | 480 | 230 | 61,925 | **62,635** |
| Perpetual capital securities | - | 1,509 | 906 | **2,415** |
| ***Transactions:*** | | | | |
| Interest income | 4,245 | 1,021 | 9,659 | **14,925** |
| Fees and commission income | 5,089 | 2,247 | 2,076 | **9,412** |
| Dividend income | - | - | 9,941 | **9,941** |
| Interest expense | 2,541 | 787 | 3,408 | **6,736** |
| ***Commitments and guarantees:*** | | | | |
| Letter of credit | - | - | 41 | **41** |
| Guarantees | 25 | 36,364 | 50,542 | **86,931** |

| 2017 | *Major shareholder KD 000's* | *Associates and joint ventures KD 000's* | *Others KD 000's* | *Total KD 000's* |
|---|---|---|---|---|
| *Consolidated statement of financial position:* | | | | |
| Cash in hand and at banks | - | 769 | - | 769 |
| Loans and advances * | - | 181,309 | 306,866 | 488,175 |
| Other assets | 3,441 | 1,162 | 40,734 | 45,337 |
| Due to banks and other financial institutions * | - | 15,475 | 36,288 | 51,763 |
| Deposit from customers * | 44,987 | 16,735 | 15,091 | 76,813 |
| Medium term notes | - | 3,018 | - | 3,018 |
| Other liabilities | 479 | 9,666 | 107,355 | 117,500 |
| Perpetual capital securities | - | 1,509 | 906 | 2,415 |
| *Transactions:* | | | | |
| Interest income | 3,457 | 9,255 | 6,449 | 19,161 |
| Fees and commission income | 89 | 2,838 | 1,636 | 4,563 |
| Gain on partial sale of investment in a media joint venture | 38,517 | - | - | 38,517 |
| Interest expense | 2,087 | 501 | 368 | 2,956 |
| *Commitments and guarantees:* | | | | |
| Letter of credit | - | - | 667 | 667 |
| Guarantees | 25 | 75,223 | 2,209 | 77,457 |

* Related party balances pertain to operations of banking subsidiaries.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**23 RELATED PARTY TRANSACTIONS (continued)**

**Compensation of key management personnel in the Group**
Remuneration paid or accrued in relation to key management (deemed for this purpose to comprise Directors in relation to their committee service, the Chief Executive Officer and other Senior Officers) was as follows:

| | ***2018*** | *2017* |
|---|---|---|
| | ***KD 000's*** | *KD 000's* |
| Short-term employee benefits | **16,891** | 14,720 |
| Termination benefits | **1,430** | 1,192 |
| Share based payment | **1,679** | 1,650 |
| **Total** | **20,000** | 17,562 |

The Board of Directors of the Parent Company has proposed Directors' fees of KD 220 thousand. These are subject to the approval of the shareholders' general assembly.

**24 BUSINESS COMBINATION**

***Business combinations in 2018***
During September 2018, one of the subsidiaries of the Group acquired 71.18% effective equity interest of Global Investment House K.S.C (Closed) ("GIH"), a Kuwaiti Shareholding Company, regulated by CMA as an investment company and CBK for financing activities. GIH is principally engaged in provision of asset management, investment banking and brokerage activities. The Group was able to control the investee and therefore, the entity became a subsidiary of the Group. Accordingly, GIH has been consolidated from the date of exercise of control. The acquisition has been accounted for in accordance with IFRS 3: Business combination ("IFRS 3").

GIH was consolidated based on the provisional values assigned to the identifiable assets and liabilities as on the acquisition date, since management was in the process of determining the fair values of assets acquired and liabilities assumed. During the year ended 31 December 2018, the Group finalized the purchase price allocation exercise of GIH, and adjusted the provisional values of assets acquired and liabilities assumed as following:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**24 BUSINESS COMBINATION (continued)**

The consideration paid, and the provisional values of assets acquired and liabilities assumed, as well as the non-controlling interest at the proportionate share of the acquiree's identifiable net assets, are summarized as follows:

| | *Previously reported provisional value KD 000's* | *Fair value recognized on acquisition date KD 000's* |
|---|---|---|
| **Assets** | | |
| Cash in hand and at banks | **32,895** | **32,895** |
| Treasury bills, bonds and other debt securities | **149** | **149** |
| Loans and advances | **5,992** | **5,992** |
| Financial assets designated at fair value through profit or loss | **19,346** | **19,233** |
| Financial assets designated at fair value through other comprehensive income | **6,992** | **6,901** |
| Investment in associates | **129** | **129** |
| Investment properties | **690** | **657** |
| Property and equipment | **7,562** | **11,379** |
| Other assets | **11,021** | **11,021** |
| Intangible assets | **-** | **4,524** |
| | **84,776** | **92,880** |
| **Liabilities** | | |
| Other liabilities | **14,646** | **14,138** |
| | **70,130** | **78,742** |
| Non controlling interest in acquiree | **1,507** | **1,507** |
| **Net assets acquired** | **68,623** | **77,235** |
| Consideration paid in cash | **(40,024)** | **(40,024)** |
| Deferred consideration payable | **(7,715)** | **(7,715)** |
| Non-controlling interests in acquiree | **(19,776)** | **(22,258)** |
| **Bargain purchase gain** | **1,108** | **7,238** |
| Cash flows on business combination | | |
| Cash consideration | **(40,024)** | **(40,024)** |
| Cash and bank balances in subsidiary acquired | **32,895** | **32,895** |
| **Net cash outflow on business combination** | **(7,129)** | **(7,129)** |

In accordance with requirements of IFRS 3, the Group has carried out PPA exercise which resulted in a gain from business combination, since the fair value of the assets acquired, and liabilities assumed exceeded the purchase consideration paid and related transaction expenses. Non-controlling interest has been recognized at the proportionate share of GIH's identifiable net assets.

Acquisition-related costs are charged to the consolidated income statement of the Group. Had the business combinations taken place at the beginning of the year, revenue of the Group and profit attributable to equity holders, would have been higher by KD 10,705 thousand and KD 3,386 thousand, respectively.

The Group is required to pay deferred consideration of KD 2,500 thousand after 180 days of the acquisition and remaining amount of KD 5,215 thousand payable by January 2019 as per agreement terms agreed between the parties.

Subsequent to the reporting date, the Group has settled KD 5,215 thousand as per the agreement.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**24 BUSINESS COMBINATION (continued)**

***Business combinations in 2017***
On 24 December 2017, the Group through one of its subsidiaries acquired 20.33% equity interest in United Education Company ("UEC') which was previously held as investment in associate with an equity holding of 43.56%. The Group's effective ownership increased to 63.89% and it determined that it has control over UEC.

The acquisition has been accounted for in accordance with IFRS 3: Business combination ("IFRS 3"). As the business combination for UEC was achieved in stages, the Group re-measured its previously held equity interest in UEC at the acquisition date and recognized a gain of KD 4,280 thousand as part of "Investment income"

UEC was consolidated based on the provisional values assigned to the identifiable assets and liabilities as on the acquisition date, since the management was in the process of determining the fair values of assets acquired and liabilities assumed. During the year ended 31 December 2018, the Group finalized the purchase price allocation exercise of UEC, and adjusted the provisional values of assets acquired and liabilities assumed as following:

| | *Previously reported provisional value* *KD 000's* | *Fair value recognized on acquisition date* *KD 000's* |
|---|---|---|
| **Assets** | | |
| Cash in hand and at banks | 5,384 | 5,384 |
| Term deposit | 6,162 | 6,162 |
| Accounts receivable and other assets | 10,793 | 10,793 |
| Property and equipment | 49,824 | 49,824 |
| Financial assets available for sale | 69 | - |
| Financial assets designated at fair value through other comprehensive income | - | 69 |
| Intangible assets * | 3,883 | 4,718 |
| | **76,115** | **76,950** |
| **Liabilities** | | |
| Term loan | 37,000 | 37,000 |
| Accounts payable and other liabilities | 13,191 | 13,191 |
| | **50,191** | **50,191** |
| Non controlling interest in acquiree | 3,707 | 3,707 |
| **Net assets acquired** | **22,217** | **23,052** |
| Consideration paid in cash | 1,017 | 1,017 |
| Consideration payable ** | 9,150 | 9,150 |
| Non-controlling interest in acquiree | 8,023 | 8,377 |
| Fair value of Group's previously held equity interest | 27,571 | 27,571 |
| | **45,761** | **46,115** |
| **Goodwill** | **23,544** | **23,063** |
| Consideration paid | (1,017) | (1,017) |
| Cash and cash equivalents in subsidiary acquired | 11,546 | 11,546 |
| Cash inflow on acquisition | **10,529** | **10,529** |

* This includes intangibles arising on acquisition and finalization of PPA amounting to KD 835 thousand.

** The amount has been paid during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**25 HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS**

The Group designated its investments in foreign operations (i.e. investment in Panther Media Group Limited , UGB, Taka'ud Savings & Pensions Company B.S.C. and Pulsar Knowledge Centre) and EMTN as a hedge of a net investment in foreign operations. EMTN is being used to hedge the Group's exposure to the US$ foreign exchange risk on these investments. During the year, gains or losses amounting to KD 1,698 thousand on the retranslation of this borrowing are transferred to consolidated statement of other comprehensive income to offset any gains or losses on translation of the net investments in the foreign operations. No ineffectiveness from hedges of net investments in foreign operations was recognized in profit or loss during the year.

Burgan Bank has entered into a forward foreign exchange contracts between Turkish lira (TRY) and United States Dollar (USD), rolled over on a monthly basis, which has been designated as a hedge of the Bank's net investment in its Turkish subsidiary. This transaction has created a net long position in USD. Gain or losses on the retranslation of the aforesaid contracts are transferred to equity to offset any gains or losses on translation of the net investments in the Turkish subsidiary. No ineffectiveness from hedges of net investments in foreign operations was recognised in profit or loss during the year.

**26 COMMITMENTS AND CONTINGENCIES**

***Credit related commitments and contingencies***
Credit related commitments and contingencies include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of subsidiaries customers.

Letters of credit, guarantees (including standby letters of credit) commit the subsidiaries to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry the same credit risk as loans.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments and contingencies generally have fixed expiration dates, or other termination clauses. Since commitments and contingencies may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

***Investment related commitments***
Investment related commitments represent commitments for capital calls of fund structures. These commitments can be called during the investment period of the fund which normally is 1 to 5 years.

The Group has the following Gross exposure on commitments and contingencies:

| | ***2018*** | *2017* |
|---|---|---|
| | ***KD 000's*** | *KD 000's* |
| **Credit related commitments and contingencies** | | |
| Letters of credit | **332,348** | 330,985 |
| Guarantees & acceptances | **974,017** | 985,837 |
| | **1,306,365** | 1,316,822 |
| **Undrawn lines of credit** | **656,263** | 808,803 |
| **Investment related commitments** | **88,173** | 145,418 |
| | **2,050,801** | 2,271,043 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**26 COMMITMENTS AND CONTINGENCIES (continued)**

***Impairment losses on guarantees and other commitments***
An analysis of changes in the gross exposure and the corresponding expected credit loss in relation to guarantees and other commitments is, as follows:

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification.

| | *Stage 1* *KWD 000's* | *Stage 2* *KWD 000's* | *Stage 3* *KWD 000's* | *2018* *Total* *KWD 000's* |
|---|---|---|---|---|
| **Internal rating grade** | | | | |
| **Performing** | | | | |
| High grade | **791,895** | **57,742** | **-** | **849,637** |
| Standard grade | **972,058** | **130,686** | **-** | **1,102,744** |
| Past due but not impaired | **-** | **219** | **-** | **219** |
| **Non – performing** | | | | |
| Individually impaired | **-** | **-** | **10,028** | **10,028** |
| **Total** | **1,763,953** | **188,647** | **10,028** | **1,962,628** |

An analysis of changes in ECLs is, as follows:

| | *Stage 1* *KD '000* | *Stage 2* *KD '000* | *Stage 3* *KD '000* | *Total* *KD '000* |
|---|---|---|---|---|
| ECL at 1 January | **4,808** | **22,569** | **8,468** | **35,845** |
| Charge / (reversal) during the year | **911** | **(6,937)** | **(1,835)** | **(7,861)** |
| Foreign exchange | **(124)** | **(287)** | **(42)** | **(453)** |
| **At 31 December 2018** | **5,595** | **15,345** | **6,591** | **27,531** |

**Operating lease – Group as a lessor**
The Group has entered into commercial leases for certain investment properties in the normal course of business. Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

| | *2018* *KD 000's* | *2017* *KD 000's* |
|---|---|---|
| Within one year | **27,971** | 29,237 |
| After one year but not more than three years | **37,787** | 43,580 |
| | **65,758** | 72,817 |

**Operating lease commitments – Group as a lessee**
The Group has entered into commercial leases for certain investment properties and property plant and equipment in the normal course of business. Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

| | *2018* *KD 000's* | *2017* *KD 000's* |
|---|---|---|
| Within one year | **3,834** | 3,482 |
| After one year but not more than three years | **4,800** | 5,827 |
| | **8,634** | 9,309 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

## 27 DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. Derivatives are financial instruments that derive their value by referring interest rate, foreign exchange rate or other indices. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing asset and liabilities or to provide interest rate risk management solutions to customers. Similarly, the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts analyzed by the terms of maturity. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

| | | | | ***Notional amounts by term to maturity*** | |
|---|---|---|---|---|---|
| **2018** | ***Positive fair value KD 000's*** | ***Negative fair value KD 000's*** | ***Notional amount KD 000's*** | ***Within 1 year KD 000's*** | ***1 – 5 years KD 000's*** |
| ***Derivatives held for trading: (including non-qualifying hedges)*** | | | | | |
| Forward foreign exchange contracts | **19,300** | **(10,162)** | **938,513** | **938,513** | **-** |
| Interest rate swaps | **5,479** | **(9,141)** | **269,553** | **103,406** | **166,147** |
| Options | **5,099** | **(2,864)** | **220,446** | **220,446** | **-** |
| ***Derivatives held for hedging:*** | | | | | |
| ***Fair value hedges:*** | | | | | |
| Forward foreign exchange contracts | **418** | **(3,035)** | **293,282** | **290,306** | **2,976** |
| Interest rate swaps | **17** | **(583)** | **106,155** | **106,155** | **-** |
| ***Cash flow hedges:*** | | | | | |
| Interest rate swaps | **42,494** | **(5,161)** | **299,963** | **44,194** | **255,769** |

| | | | | *Notional amounts by term to maturity* | |
|---|---|---|---|---|---|
| 2017 | *Positive fair value KD 000's* | *Negative fair value KD 000's* | *Notional amount KD 000's* | *Within 1 year KD 000's* | *1 – 5 years KD 000's* |
| *Derivatives held for trading: (including non-qualifying hedges)* | | | | | |
| Forward foreign exchange contracts | 8,912 | (9,931) | 1,353,156 | 1,342,376 | 10,780 |
| Interest rate swaps | 5,390 | (2,205) | 329,785 | 39,703 | 290,082 |
| Options | 2,383 | (2,142) | 339,068 | 339,068 | - |
| *Derivatives held for hedging:* | | | | | |
| *Fair value hedges:* | | | | | |
| Forward foreign exchange contracts | 198 | (2,375) | 221,829 | 221,829 | - |
| Interest rate swaps | 276 | - | 105,613 | - | 105,613 |
| *Cash flow hedges:* | | | | | |
| Interest rate swaps | 21,722 | (5,101) | 234,056 | 45,293 | 188,763 |

The Group has positions in the following types of derivatives:

**Forward foreign exchange contracts**
Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**27 DERIVATIVES (continued)**

**Swaps**
Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

**Options**
Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specified amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Group purchases and sells options through regulated exchanges and in the over–the–counter markets. Options purchased by the Group provide the Group with an opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed–upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Group provide the purchaser the opportunity to purchase from or sell to the Group the underlying asset at an agreed–upon value either on or before the expiration of the option.

**Derivatives held for trading**
Derivatives held for trading include the Group's derivative positions held with the expectation of profiting from favourable movements in prices, rates or indices. Derivatives which do not meet hedging requirements are also included under derivatives held for trading.

**Fair value hedges**
Fair value hedges are used by the Group to protect against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates. The Group uses forward foreign exchange contracts to hedge against specifically identified currency risks.

**Cash flow hedges**
The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. A schedule indicating as at 31 December 2018 the periods when the hedged cash flows are expected to occur and when they are expected to affect the consolidated income statement are as follows:

| **2018** | ***Within 1 year KD 000's*** | ***1-5 years KD 000's*** |
|---|---|---|
| Net cash outflows (liabilities) | **2,052** | **2,447** |
| Other comprehensive income | **17** | **-** |

| 2017 | *Within 1 year KD 000's* | *1-5 years KD 000's* |
|---|---|---|
| Net cash outflows (liabilities) | 411 | 599 |
| Other comprehensive income | 332 | - |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**27 DERIVATIVES (continued)**

The table below shows the contractual expiry by maturity of the Group's derivatives positions:

| **Derivatives** | ***Up to 3 months KD 000's*** | ***3 to 12 months KD 000's*** | ***Over 1 year KD 000's*** | ***Total KD 000's*** |
|---|---|---|---|---|
| **2018** | | | | |
| Foreign exchange derivatives | **10,616** | **1,218,203** | **2,976** | **1,231,795** |
| Interest rate swaps | **106,155** | **147,600** | **421,916** | **675,671** |
| Options | **-** | **220,446** | **-** | **220,446** |
| | **116,771** | **1,586,249** | **424,892** | **2,127,912** |
| 2017 | | | | |
| Foreign exchange derivatives | 251,318 | 1,312,887 | 10,780 | 1,574,985 |
| Interest rate swaps | - | 84,996 | 584,458 | 669,454 |
| Options | - | 339,068 | - | 339,068 |
| | 251,318 | 1,736,951 | 595,238 | 2,583,507 |

**28 SEGMENT INFORMATION**

The Board of Directors of the Parent Company approved initiating an active plan to divest its stake in Panther Media Group Limited, a media segment. Accordingly, for management purposes, the Group reorganized its media segment as discontinued operation in accordance with IFRS 5 (Note 31) and others are organized into six main business segments based on internal reporting provided to the chief operating decision maker as follows:

Commercial banking - represents Group's commercial banking activities which includes retail banking, corporate banking, and private banking and treasury products. These entities are regulated by the Central Bank of the respective countries.

Asset management and investment banking - represents Group's asset management and investment banking activities which includes asset management, corporate finance (advisory and capital markets services), investment advisory and research, and wealth management.

Insurance - represents Group's insurance activities and other related services.

Industrial - represents Group's activities in industrial project development, food, utilities, services, medical equipment and other related sectors.

Hospitality and real estate - represents Group's activities in the hospitality and real estate sector.

Others - represents other activities undertaken by the Group which includes management advisory, education and consultancy.

Transfer pricing between operating segments are at a price approved by the management of the Group.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

## 28 SEGMENT INFORMATION (continued)

Management monitors the results of its segments separately for making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

| | *Commercial banking KD 000's* | *Asset management and investment banking KD 000's* | *Insurance* KD 000's* | *Industrial KD 000's* | *Hospitality and real estate KD 000's* | *Others KD 000's* | *Inter-segmental eliminations KD 000's* | *Assets held for sale KD 000's* | ***Total KD 000's*** |
|---|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2018** | | | | | | | | | |
| **Assets and liabilities:** | | | | | | | | | |
| Segment assets | 8,708,774 | 795,279 | 73,174 | 278,966 | 1,028,454 | 291,009 | (992,649) | 187,304 | **10,370,311** |
| Segment liabilities | 7,754,344 | 1,294,011 | - | 138,145 | 675,398 | 205,692 | (707,914) | - | **9,359,676** |
| **For the year ended 31 December 2018** | | | | | | | | | |
| Segment revenues | 561,377 | 44,328 | 6,055 | 33,022 | 121,053 | 51,638 | (43,105) | - | **774,368** |
| Profit (loss) for the year | 162,298 | (56,010) | 6,055 | 3,714 | 1,334 | 1,595 | (12,226) | (22,968) | **83,792** |
| **Other segmental information:** | | | | | | | | | |
| Investment in associates | 6,843 | 17,510 | 73,174 | 212,923 | 19,032 | - | - | - | **329,482** |
| Goodwill (note 10) | 135,188 | 15,255 | - | - | - | 34,165 | - | - | **184,608** |
| Other intangibles (note 10) | 133,386 | 4,410 | - | - | 2,025 | 4,064 | - | - | **143,885** |
| Interest income | 440,011 | 1,350 | - | 3 | 3,822 | 20 | - | - | **445,206** |
| Interest expense | 226,729 | 48,294 | - | 764 | 20,008 | 2,035 | - | - | **297,830** |
| Provision for credit losses | 7,231 | 607 | - | - | - | - | - | - | **7,838** |
| Share of results of associates | 356 | 2,203 | 6,055 | 12,660 | (2,861) | - | - | - | **18,413** |
| (Reversal of) provision for impairment of other financial & non-financial assets | (568) | 8,393 | - | - | 1,505 | - | - | - | **9,330** |
| Depreciation and amortization | 16,117 | 2,178 | - | 347 | 808 | 1,105 | - | - | **20,555** |

Inter segmental elimination represent the elimination of balances and transactions arising in the normal course of business between the different segments of the Group.

* represents interest in GIG, an associate of the Group (note 8)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**28 SEGMENT INFORMATION (continued)**

| | *Commercial banking KD 000's* | *Asset management and investment banking KD 000's* | *Insurance* KD 000's* | *Media KD 000's* | *Industrial KD 000's* | *Hospitality and real estate KD 000's* | *Others KD 000's* | *Inter-segmental eliminations KD 000's* | *'Restated' Total KD 000's* |
|---|---|---|---|---|---|---|---|---|---|
| As at 31 December 2017 | | | | | | | | | |
| Assets and liabilities: | | | | | | | | | |
| Segment assets | 8,851,944 | 860,141 | 73,369 | 177,863 | 267,168 | 865,106 | 284,332 | (1,034,784) | 10,345,139 |
| Segment liabilities | 7,851,858 | 1,153,527 | - | - | 115,596 | 560,827 | 204,790 | (753,541) | 9,133,057 |
| For the year ended 31 December 2017 | | | | | | | | | |
| Segment revenues | 495,322 | 73,512 | 4,735 | - | 36,873 | 96,048 | 21,777 | (42,478) | 685,789 |
| Profit (loss) for the year | 106,257 | (11,017) | 4,735 | (30,179) | 6,541 | (6,746) | 486 | (7,579) | 62,498 |
| Other segmental information: | | | | | | | | | |
| Investment in associates | 7,865 | 39,331 | 73,369 | - | 201,814 | 52,926 | - | - | 375,305 |
| Goodwill (note 10) | 134,856 | 16,466 | - | - | - | - | 34,165 | - | 185,487 |
| Other intangibles (note 10) | 136,992 | - | - | - | - | 2,320 | 4,718 | - | 144,030 |
| Interest income | 384,889 | 1,134 | - | - | 2 | 432 | 12 | - | 386,469 |
| Interest expense | 193,372 | 38,268 | - | - | 593 | 15,888 | - | - | 248,121 |
| Provision for (reversal of) credit losses | 23,172 | (705) | - | - | - | - | - | - | 22,467 |
| Share of results of associates | 285 | 1,324 | 4,735 | - | 13,127 | (6,715) | - | - | 12,756 |
| Provision for impairment of other financial & non-financial assets | 976 | 139 | - | - | - | - | - | - | 1,115 |
| Depreciation and amortization | 18,618 | 1,920 | - | - | 353 | 817 | 417 | - | 22,125 |

Inter segmental elimination represent the elimination of balances and transactions arising in the normal course of business between the different segments of the Group.

* represents interest in GIG, an associate of the Group (note 8)

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at ended 31 December 2018

## 28 SEGMENT INFORMATION (continued)

**Geographic information**

| **2018** | ***Income*** ***KD 000's*** | ***Non-current assets*** ***KD 000's*** |
|---|---|---|
| Kuwait | **378,491** | **2,793,928** |
| Rest of GCC | **18,128** | **110,461** |
| Rest of Middle East, Asia and North Africa | **183,340** | **1,244,814** |
| Europe | **190,483** | **519,644** |
| North America | **3,926** | **13,582** |
| | **774,368** | **4,682,429** |

| 2017 | *Income* *KD 000's* | *'Restated' Non-current assets* *KD 000's* |
|---|---|---|
| Kuwait | 346,199 | 3,105,697 |
| Rest of GCC | 10,644 | 326,592 |
| Rest of Middle East, Asia and North Africa | 163,406 | 1,244,574 |
| Europe | 157,161 | 511,222 |
| North America | 8,379 | 15,390 |
| | 685,789 | 5,203,475 |

For breakup of non-current assets, refer to note 29.3.

The geographic segmentation of the income information above is based on the region where the services are provided.

## 29 RISK MANAGEMENT OBJECTIVES AND POLICIES

### 29.1 INTRODUCTION

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability.

Each subsidiary of the Group is responsible for managing its own risks and has its own Board Committees, including Audit and Executive Committees in addition to other management Committees such as Credit / Investment Committee and (in the case of major subsidiaries) Asset Liability Committee (ALCO), or equivalent, with responsibilities generally analogous to the Group's committees.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process. The Board of Directors is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected geographic and industrial sectors. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**29 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**29.1 INTRODUCTION (continued)**

The operations of certain Group subsidiaries are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy, general provision on loans and advances) to minimise the risk of default and insolvency on the part of the banking companies to meet unforeseen liabilities as these arise. Adequate adjustments to provisions for credit losses have been made at the Group level to comply with IFRS having a net positive effect of KD 62,273 thousand (2017: KD 117,081 thousand) on equity attributable to equity holders of the Parent Company.

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currency transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group.

The Group classifies the risks faced as part of its monitoring and controlling activities into certain categories of risks and accordingly specific responsibilities have been given to various officers for the identification, measurement, control and reporting of these identified categories of risks. The categories of risks are:

A. Risks arising from financial instruments:
   i. Credit risk which includes default risk of clients and counterparties
   ii. Liquidity risk
   iii. Market risk which includes interest rate, foreign exchange and equity price risks
   iv. Prepayment risk

B. Other risk
   i. Operational risk which includes risks due to operational failures

Derivative transactions result, to varying degrees, in credit as well as market risks.

Market risk arises as interest rates, foreign exchange rates and equity prices fluctuate affecting the value of a contract. For risk management purposes and to control these activities, the Group has established appropriate procedures and limits approved by the Board of Directors.

**29.2 CREDIT RISK**

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industrial segments. Such risks are monitored on a regular basis and are subject to regular review. Limits on the level of credit risk by product, industry sector and by country are approved by the Board.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

**Derivative financial instruments**
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position. In the case of credit derivatives, the Group is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative.

**Credit related commitments risk**
The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**29 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**29.2 CREDIT RISK (continued)**

**29.2.1 Assessment of expected credit losses (policy applicable from 1 January 2018)**

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

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

Any credit impaired or stressed facility that has been restructured during the year would also be considered as in default. The Group considers externally-rated exposures with ratings 'D' for S&P and Fitch, and 'C' for Moody's as defaulted.

The Group considers a variety of indicators that may indicate unlikeliness to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:
- breaches of covenants
- customer having past due liabilities to public creditors or employees
- customer is deceased
- The borrower requesting emergency funding from the Group

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

***Significant increase in credit risk***
The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Group assess whether there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are more than 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria's do not indicate a significant increase in credit risk.

The Group also consider that events as mentioned below are indicators of significant increase in credit risk as opposed to a default.
- Significant deterioration of credit risk rating of the borrower with consideration to relative increase in Possibility of Default ("PD").
- Restructured accounts where there is principal haircut, or a standstill agreement is signed or where the restructured account carries specific provision.
- In the case of retail portfolio, qualitative indicators such as fraudulent customers, and death of customer

The Group considers a financial instrument with an external rating of "investment grade" as at the reporting date to have low credit risk.

***Internal rating and PD estimation process***
In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Group uses industry standard rating tools for assessing ratings/scores that are leveraged for PD estimation process. The tool provides the ability to analyse a business and produce risk ratings at both the obligor and facility level. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally rated portfolios.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**29 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**29.2 CREDIT RISK (continued)**

**29.2.1 Assessment of expected credit losses *(policy applicable from 1 January 2018)***
***Internal rating and PD estimation process (continued)***
The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The Group assesses the PD for its retail portfolio through behavioral scorecards implemented in the Group. The scorecards are based on logistic regression technique. This enables the evaluation of score and PD associated against each facility. Term structure of PD is based on hazard rate concept. The survival distribution used is exponential distribution. The probability distribution function of an exponentially distributed random variable is used with the hazard rate as the PD evaluated from the behavioral scorecard.

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

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

The maximum period for which the credit losses are determined is the contractual life of a financial instrument, including credit cards and other revolving facilities, unless the Group has the legal right to call it earlier, except for the maturity of all credit facilities (other than consumer/ installment facilities) in Stage 2 which is considered based on minimum period of 4 years.

***Exposure at default***
Exposure at default (EAD) represents the amount which the obligor will owe to the Group at the time of default. The Group considers variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off balance sheet values. EAD is estimated taking into consideration the contractual terms such as coupon rates, frequency, reference curves, maturity, pre-payment options, amortization schedule, credit conversion factors, etc. EAD for retail loans incorporate prepayment assumptions whereas for credit cards portfolio, credit conversion factors are applied to estimate the future draw downs.

***Loss given default***
Loss given default (LGD) is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**29 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**29.2 CREDIT RISK (continued)**

***29.2.2 Gross maximum exposure to credit risk:***

The table below shows the gross maximum exposure to credit risk across financial assets before taking into consideration the effect of any collateral and other credit enhancements i.e. credit risk mitigation.

| | ***2018*** | *2017* |
|---|---|---|
| | ***KD 000's*** | *KD 000's* |
| Cash at banks | **2,016,325** | 1,432,886 |
| Treasury bills ,bonds and other debt securities | **726,459** | 646,675 |
| Loans and advances | **4,635,327** | 5,240,825 |
| Financial assets at fair value through profit or loss | **108,164** | 4,396 |
| Financial assets available for sale | **-** | 318,230 |
| Financial assets at fair value through other comprehensive income | **132,311** | - |
| Financial assets held to maturity | **-** | 77,597 |
| Other assets including positive value of derivatives (excluding prepayments, assets pending for sale and others) | **265,038** | 254,379 |
| **Total** | **7,883,624** | 7,974,988 |
| **Credit related commitments** | **1,962,628** | 2,125,625 |
| **Total** | **9,846,252** | 10,100,613 |

The exposures set above are based on net carrying amounts as reported in the consolidated statement of financial position.

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

***29.2.3 Collateral and other credit enhancements***

The amount, type and valuation of collateral is based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, quoted shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units.

Management monitors the market value of collaterals, requests additional collaterals in accordance with the underlying agreement, and monitors the market value of collaterals obtained on a regular basis.

***29.2.4 Credit risk concentration***

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 10 largest loans outstanding as a percentage of gross loans as at 31 December 2018 are 22% (2017: 23%).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**29 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**29.2 CREDIT RISK (continued)**

***29.2.4 Credit risk concentration (continued)***

The Group's financial assets and commitments, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

| *Region* | *Assets 2018 KD 000's* | *Credit related commitments 2018 KD 000's* | *Assets 2017 KD 000's* | *Credit related commitments 2017 KD 000's* |
|---|---|---|---|---|
| MENA | **7,063,165** | **1,883,416** | 7,077,720 | 2,033,964 |
| North America | **68,215** | **421** | 160,565 | 454 |
| Europe | **396,600** | **28,669** | 479,727 | 35,025 |
| Asia | **119,384** | **1,691** | 205,644 | 13,968 |
| Others | **236,260** | **48,431** | 51,332 | 42,214 |
| **Total** | **7,883,624** | **1,962,628** | 7,974,988 | 2,125,625 |

The Group's financial assets and credit related commitments, before taking into account any collateral held or credit enhancements can be analysed by the following industry sector:

| | *2018 KD 000's* | *2017 KD 000's* |
|---|---|---|
| Sovereign | **1,544,399** | 1,078,334 |
| Banking | **1,561,154** | 1,669,987 |
| Investment | **332,924** | 300,300 |
| Trade and commerce | **967,440** | 959,680 |
| Real estate | **1,155,158** | 1,392,285 |
| Personal | **1,227,617** | 1,397,298 |
| Manufacturing | **809,148** | 959,337 |
| Construction | **876,135** | 981,307 |
| Others | **1,372,277** | 1,362,085 |
| | **9,846,252** | 10,100,613 |

**29.3 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.

The table below shows an analysis of financial liabilities based on the remaining undiscounted contractual maturities. Repayments which are subject to notice are treated as if notice were to be given immediately.

| | *1 to 3 months KD 000's* | *3 to 12 months KD 000's* | *Over 1 year KD 000's* | *Total KD 000's* |
|---|---|---|---|---|
| **2018** | | | | |
| ***Financial liabilities*** | | | | |
| Due to banks and other financial institutions | 1,210,880 | 774,681 | 205,985 | **2,191,546** |
| Deposits from customers | 3,965,495 | 965,846 | 142,638 | **5,073,979** |
| Loans payable | 72,673 | 207,854 | 669,494 | **950,021** |
| Bonds | 6,264 | 30,138 | 601,317 | **637,719** |
| Medium term notes | 87,119 | 19,027 | 695,726 | **801,872** |
| Other liabilities * | 158,640 | 140,349 | 280,914 | **579,903** |
| | **5,501,071** | **2,137,895** | **2,596,074** | **10,235,040** |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**29 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**29.3 LIQUIDITY RISK (continued)**

| | *1 to 3 months KD 000's* | *3 to 12 months KD 000's* | *Over 1 year KD 000's* | *Total KD 000's* |
|---|---|---|---|---|
| 2017 | | | | |
| *Financial liabilities* | | | | |
| Due to banks and other financial institutions | 1,244,902 | 620,708 | 433,768 | 2,299,378 |
| Deposits from customers | 4,345,874 | 804,474 | 108,915 | 5,259,263 |
| Loans payable | 126,319 | 75,644 | 312,094 | 514,057 |
| Bonds | 2,584 | 81,941 | 360,661 | 445,186 |
| Medium term notes | - | 36,564 | 828,041 | 864,605 |
| Other liabilities * | 264,694 | 96,739 | 143,603 | 505,036 |
| | 5,984,373 | 1,716,070 | 2,187,082 | 9,887,525 |

* Other liabilities include negative fair value of derivative financial liabilities.

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

| | ***1 to 3 months KD 000's*** | ***3 to 12 months KD 000's*** | ***Over 1 year KD 000's*** | ***Total KD 000's*** |
|---|---|---|---|---|
| **2018** | | | | |
| Credit related commitments | 642,955 | 809,914 | 509,759 | **1,962,628** |
| Investment related commitments | 141 | 6,863 | 81,169 | **88,173** |
| | **643,096** | **816,777** | **590,928** | **2,050,801** |
| 2017 | | | | |
| Credit related commitments | 933,347 | 686,981 | 505,297 | 2,125,625 |
| Investment related commitments | 29,499 | 34,826 | 81,093 | 145,418 |
| | 962,846 | 721,807 | 586,390 | 2,271,043 |

The table below summarizes the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income is determined based on management's estimate of liquidation of those financial assets. The actual maturities may differ from the maturities shown below since borrowers may have the right to prepay obligations with or without prepayment penalties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**29 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**29.3 LIQUIDITY RISK (continued)**

| **2018** | *1 to 3 months KD 000's* | *3 to 12 months KD 000's* | *Over 1 year KD 000's* | ***Total KD 000's*** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash in hand and at banks | 2,114,689 | 3,977 | 102 | **2,118,768** |
| Treasury bills, bonds and other debt securities | 137,651 | 164,427 | 424,381 | **726,459** |
| Loans and advances | 1,268,338 | 1,247,670 | 2,119,319 | **4,635,327** |
| Financial assets at fair value through profit or loss | 6,299 | 173,965 | 84,801 | **265,065** |
| Financial assets at fair value through other comprehensive income | 55,633 | 6,422 | 191,629 | **253,684** |
| Other assets | 75,986 | 147,812 | 244,143 | **467,941** |
| Properties held for trading | - | 97,709 | - | **97,709** |
| Investment in associates | - | - | 329,482 | **329,482** |
| Investment properties | - | - | 625,409 | **625,409** |
| Property, plant and equipment | - | - | 334,670 | **334,670** |
| Intangible assets | - | - | 328,493 | **328,493** |
| Assets held for sale | - | 187,304 | - | **187,304** |
| **Total assets** | **3,658,596** | **2,029,286** | **4,682,429** | **10,370,311** |
| **LIABILITIES AND EQUITY** | | | | |
| Due to banks and other financial institutions | 1,095,087 | 730,948 | 232,970 | **2,059,005** |
| Deposits from customers | 3,822,778 | 930,066 | 134,759 | **4,887,603** |
| Loans payable, Bonds, and Medium-term notes | 131,276 | 175,889 | 1,526,000 | **1,833,165** |
| Other liabilities | 158,640 | 140,349 | 280,914 | **579,903** |
| Equity | - | - | 1,010,635 | **1,010,635** |
| **Total liabilities and equity** | **5,207,781** | **1,977,252** | **3,185,278** | **10,370,311** |

| 2017 | *1 to 3 months KD 000's* | *3 to 12 months KD 000's* | *Over 1 year KD 000's* | *'Restated' Total KD 000's* |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash in hand and at banks | 1,559,770 | 6,862 | 2,933 | 1,569,565 |
| Treasury bills, bonds and other debt securities | 166,283 | 151,361 | 329,031 | 646,675 |
| Loans and advances | 1,066,347 | 1,778,720 | 2,395,758 | 5,240,825 |
| Financial assets at fair value through profit or loss | 6,843 | 2,609 | 25,903 | 35,355 |
| Financial assets available for sale | 32,733 | 15,487 | 465,883 | 514,103 |
| Financial assets held to maturity | - | 1,676 | 75,921 | 77,597 |
| Other assets | 109,451 | 151,958 | 185,791 | 447,200 |
| Properties held for trading | - | 91,564 | - | 91,564 |
| Investment in associates | - | - | 375,305 | 375,305 |
| Investment in a media joint venture | - | - | 177,863 | 177,863 |
| Investment properties | - | - | 522,946 | 522,946 |
| Property, plant and equipment | - | - | 316,624 | 316,624 |
| Intangible assets | - | - | 329,517 | 329,517 |
| Total assets | 2,941,427 | 2,200,237 | 5,203,475 | 10,345,139 |
| LIABILITIES AND EQUITY | | | | |
| Due to banks and other financial institutions | 998,045 | 569,771 | 446,255 | 2,014,071 |
| Deposits from customers | 4,227,027 | 797,490 | 104,683 | 5,129,200 |
| Loans payable, Bonds, and Medium-term notes | 72,405 | 194,338 | 1,218,007 | 1,484,750 |
| Other liabilities | 264,694 | 96,739 | 143,603 | 505,036 |
| Equity | - | - | 1,212,082 | 1,212,082 |
| Total liabilities and equity | 5,562,171 | 1,658,338 | 3,124,630 | 10,345,139 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**29 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**29.4 MARKET RISK**

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates, foreign exchange rates, and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all financial assets traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industrial concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

***29.4.1 Interest rate risk***
Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or cash flows of the financial instruments. Each subsidiary of the Group manages the internal rate risk at their entity level. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. This arises as a result of mismatches or gaps in the amounts of assets and liabilities and commitments that mature or reprice in a given period. The Group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The Group is exposed to interest rate risk on its interest-bearing assets and liabilities (treasury bills and bonds, loans and advances, due to banks and other financial institutions, deposits from customers, loans payable, bonds and medium term notes).

The following table demonstrates the sensitivity of the profit before taxation to reasonably possible changes in interest rates after the effect of hedge accounting, with all other variables held constant.

Based on the Group's financial assets and liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact the Group's profit before taxation as follows:

| | ***Increase of 25 basis points*** *Increase (decrease) in profit before taxation* | |
|---|---|---|
| **Currency** | ***2018*** ***KD 000's*** | *2017* *KD 000's* |
| KD | **549** | (2,274) |
| US$ | **(403)** | (792) |
| EURO | **(101)** | (106) |
| GBP | **5** | (2) |

The decrease in the basis points will have an opposite impact on the Group's profit before taxation.

***29.4.2 Foreign currency risk***
Currency risk is the risk that the value of the financial instrument will fluctuate due to changes in the foreign exchange rates. The Group incurs foreign currency risk on transactions denominated in a currency other than the KD. The Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the KD. The Group also uses the hedging transactions to manage risks in other currencies (note 25).

The table below analyses the effect on profit before taxation (due to change in the fair value of monetary assets and liabilities) and equity of an assumed 5% strengthening in the value of the currency rate against the KD from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, whereas a positive amount reflects a net potential increase.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018

**29 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**29.4 MARKET RISK (continued)**

***29.4.2 Foreign currency risk (continued)***

| | Change in currency rate by + 5% | | | |
|---|---|---|---|---|
| *Currency* | *Effect on equity* | | *Effect on profit before taxation* | |
| | ***2018*** | *2017* | ***2018*** | *2017* |
| | ***KD 000's*** | *KD 000's* | ***KD 000's*** | *KD 000's* |
| US$ | **2,437** | 4,867 | **(28,099)** | (32,582) |
| EURO | **1,238** | 751 | **(653)** | (887) |
| GBP | **-** | - | **109** | (13) |

An equivalent weakening in each of the above-mentioned currencies against the KD would result in an equivalent but opposite impact.

***29.4.3 Equity price risk***

Equity price risk arises from changes in the fair values of equity investments. The unquoted equity price risk exposure arises from the Group's investment portfolio. The Group manages this through diversification of investments in terms of geographical distribution and industry concentration.

The Group conducts sensitivity analysis on regular intervals in order to assess the potential impact of any major changes in fair value of equity instruments. Based on the results of the analysis conducted there are no material implication over the Group's profit and equity for a 5% fluctuation in major stock exchanges.

The Group's financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income in different industry sectors are as follows:

| **2018** | ***Financial assets at fair value through profit or loss KD 000's*** | ***Financial assets at fair value through other comprehensive income KD 000's*** |
|---|---|---|
| Sovereigns | **686** | **18,098** |
| Banking | **56,665** | **26,680** |
| Investment | **74,869** | **17,742** |
| Trade and commerce | **-** | **1,186** |
| Real estate | **-** | **22,804** |
| Manufacturing | **-** | **11,914** |
| Others | **24,681** | **22,949** |
| | **156,901** | **121,373** |

| 2017 | *Financial assets at fair value through profit or loss KD 000's* | *Financial assets available for sale KD 000's* |
|---|---|---|
| Sovereigns | 403 | 48,760 |
| Banking | 469 | 25,563 |
| Investment | 874 | 73,450 |
| Trade and commerce | - | 586 |
| Real estate | 24,707 | 16,651 |
| Manufacturing | - | 10,612 |
| Others | 4,506 | 20,251 |
| | 30,959 | 195,873 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

**29 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**29.4 MARKET RISK (continued)**

***29.4.3 Equity price risk (continued)***

The Group's financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income in different geographical regions are as follows:

| | ***MENA 2018 KD 000's*** | ***Europe 2018 KD 000's*** | ***North America 2018 KD 000's*** | ***Asia 2018 KD 000's*** | ***Total 2018 KD 000's*** | *Total 2017 KD 000's* |
|---|---|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | | | | | | |
| Equity securities | 11,318 | 2,467 | 4,733 | 51 | **18,569** | 29,724 |
| Managed funds | 12,955 | 55,611 | 69,766 | - | **138,332** | 1,235 |
| | **24,273** | **58,078** | **74,499** | **51** | **156,901** | 30,959 |
| **Financial assets at fair value through other comprehensive income** | | | | | | |
| Quoted equities | 32,709 | - | - | - | **32,709** | - |
| Unquoted equities | 64,166 | 21,337 | 3,161 | - | **88,664** | - |
| | **96,875** | **21,337** | **3,161** | **-** | **121,373** | - |
| **Financial assets available for sale** | | | | | | |
| Quoted equities | - | - | - | - | - | 42,175 |
| Unquoted equities | - | - | - | - | - | 82,375 |
| Managed funds | - | - | - | - | - | 71,323 |
| | - | - | - | - | - | 195,873 |

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**29 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**29.5 PREPAYMENT RISK**

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rate fall. The fixed rate assets of the Group are not significant compared to the total assets. Moreover, other market conditions causing prepayment is not significant in the markets in which the Group operates. Therefore, the Group considers the effect of prepayment on net interest income is not material after taking in to account the effect of any prepayment penalties.

**29.6 OPERATIONAL RISK**

Operational risk is the risk of loss arising from the failures in operational process, people and system that supports operational processes. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by Risk management. Risk management ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall risk management.

**30 FAIR VALUE OF FINANCIAL AND NON-FINANCIAL INSTRUMENTS**

Fair value of financial instruments are not materially different from their carrying values except for medium term notes whose fair value amounts to KD 655,883 thousand (note 14). For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

The fair value of the above investment securities is categorised as per the policy on fair value measurement in Note 2.6. Movement in level 3 is mainly on account of purchase, sale and change in fair value, which is not material to the Group's consolidated financial statements.

Debt securities included under level 3 consists of unquoted corporate bonds issued by banks and financial institutions. The fair values of these bonds are estimated using discounted cash flow methods using credit spreads (ranging from 1% to 3%). Equities and other securities included in these categories mainly include strategic equity investments and managed funds which are not traded in an active market. The fair values of these investments are estimated by using valuation techniques that are appropriate in the circumstances. Valuation techniques includes discounted cash flow models, observable market information of comparable companies, recent transactions information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue, profit estimate and market multiples such as price to book and price to earnings. Given the diverse nature of these investments, it is not practical to disclose a range of significant unobservable inputs.

Other financial assets and liabilities are carried at amortised cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in interest rates. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated using valuation techniques incorporating certain assumptions such as credit spreads that are appropriate in the circumstances.

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**30 FAIR VALUE OF FINANCIAL AND NON-FINANCIAL INSTRUMENTS (continued)**

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

**Fair value measurement hierarchy as at 31 December 2018:**

| **2018** | ***Level 1 KD 000's*** | ***Level 2 KD 000's*** | ***Level 3 KD 000's*** | ***Total fair value KD 000's*** |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| *Financial assets at fair value through profit or loss:* | | | | |
| Equity securities | 10,846 | - | 7,723 | **18,569** |
| Debt securities | 2,832 | - | - | **2,832** |
| Managed funds | - | 60,562 | 77,770 | **138,332** |
| Forfaiting assets | - | - | 105,332 | **105,332** |
| *Financial assets fair value through other comprehensive income:* | | | | |
| Equities | 32,709 | 34,790 | 53,874 | **121,373** |
| Debt securities | 118,291 | 6,020 | 8,000 | **132,311** |
| Derivatives (Note 27) | - | 72,807 | - | **72,807** |
| **Liabilities measured at fair value** | | | | |
| Derivatives (Note 27) | - | (30,946) | - | **(30,946)** |

Fair value measurement hierarchy as at 31 December 2017:

| 2017 | *Level 1 KD 000's* | *Level 2 KD 000's* | *Level 3 KD 000's* | *Total fair value KD 000's* |
|---|---|---|---|---|
| Assets measured at fair value | | | | |
| *Financial assets at fair value through profit or loss:* | | | | |
| Equity securities | 29,724 | - | - | 29,724 |
| Debt securities | 4,396 | - | - | 4,396 |
| Managed funds | - | 388 | 847 | 1,235 |
| *Financial assets available for sale:* | | | | |
| Equities* | 42,175 | 4,913 | 33,879 | 80,967 |
| Debt securities | 270,846 | - | 47,384 | 318,230 |
| Managed funds | - | 11,088 | 60,235 | 71,323 |
| Derivatives (Note 27) | - | 38,881 | - | 38,881 |
| Liabilities measured at fair value | | | | |
| Derivatives (Note 27) | - | (21,754) | - | (21,754) |

There were no material transfers between the levels during the year.

The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5%.

* Included under financial assets available for sale are unquoted financial assets amounting to KD 43,583 thousand that are carried at cost, less impairment.

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**31 DISCONTINUED OPERATIONS**

The Group owns 60.50% equity interest in Panther Media Group Limited ("PMGL") known as "OSN", a jointly controlled entity incorporated in Dubai and registered in the Dubai International Financial Center, engaged in providing satellite encrypted pay television services across the Middle East and North Africa region.

The Group had accounted for its interest in PMGL using the equity method. On 8 August 2018, the Board of Directors of the Parent Company approved initiating an active plan to divest its entire interest in PMGL. The Group has engaged an international investment banker for this purpose. As a result, the investment in a media joint venture has been classified as "Asset held for sale "in accordance with IFRS 5 - Non-current Assets held for sale and discontinued operations ("IFRS 5") in the consolidated statement of financial position for the year ended 31 December 2018.

The business of OSN represented the entirety of the Group's media operating segment. In accordance with IFRS 5, the investment in OSN is classified as a discontinued operation and accordingly, the media segment is no longer presented in the segment note for the year 2018. The results of PMGL for the year are presented below:

| | **2018 *** <br> **KD 000's** | 2017 <br> KD 000's |
|---|---|---|
| Income | **92,535** | 178,490 |
| Expenses | **(130,549)** | (231,578) |
| Loss for the year from discontinued operations | **(38,014)** | (53,088) |
| Total comprehensive loss for the year from discontinued operations | **(38,084)** | (53,024) |
| Group's share of loss for the year from discontinued operations | **(22,968)** | (30,179) |
| Group's share of total comprehensive loss for the year from discontinued operations | **(23,010)** | (30,136) |

The following table summarizes the carrying value of the Group's share of investment in joint venture and asset held for sale.

| | **2018 *** <br> **KD 000's** | 2017 <br> 'Restated' <br> KD 000's |
|---|---|---|
| Current assets | **90,698** | 81,750 |
| Non-current assets | **427,372** | 428,292 |
| Current liabilities | **(133,884)** | (119,906) |
| Non-current liabilities | **(58,276)** | (70,310) |
| **Equity** | **325,910** | 319,826 |
| **Group's carrying value as investment in a media joint venture** | - | 177,863 |
| **Group's carrying value as asset held for sale** | **187,304** | - |

* Represents activity until 08 August 2018, prior to the classification as assets held for sale & discontinued operations.

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**32 CAPITAL MANAGEMENT**

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, issue new shares or purchase/sale of treasury shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital at the level of the Parent Company and at each of the subsidiaries.

Based on considerations of various stakeholders (shareholders, rating agencies, debt markets) capital at the Parent Company is monitored in terms of a) Leverage and b) Net debt to portfolio value.

Leverage is defined as total debt at the Parent Company level divided by the equity attributable to the equity holders of the Parent Company. The ability to take on leverage provides the Parent Company with the financial flexibility to effect investment decisions in a timely manner. The Parent Company expects that the leverage does not exceed the target of 2.5 times over the medium term. The Parent Company includes within total debt, loans payable, bonds and medium term notes and accrued interest thereon.

| | ***2018*** | *2017* |
|---|---|---|
| | ***KD 000's*** | *KD 000's* |
| Loans payable | **-** | 42,053 |
| Bonds | **198,210** | 98,800 |
| Medium term notes | **521,421** | 518,076 |
| Accrued interest thereon | **13,892** | 12,453 |
| Total debt | **733,523** | 671,382 |
| Equity attributable to the equity holders of the Parent Company (excluding treasury shares held by subsidiaries of the Group) | **347,335** | 517,039 |
| Leverage | **2.11** | 1.30 |

Each subsidiary of the Group is responsible for its own capital management and maintains a level of capital that is adequate to support its business and financial exposures. Furthermore, regulated subsidiaries of the Group are governed by the capital adequacy and/or other regulatory requirements in the jurisdictions in which they operate. The compliance to such capital adequacy and/or other regulatory requirements is monitored by each of the regulated subsidiaries on a regular basis.

## How to obtain our 2018 Financial Statements:

Shareholders attending our General Assembly meeting will be provided with a draft printed copy of the Financial Statements for their approval. Shareholders can request a printed copy of the Financial Statements to be sent to them by courier seven days before the advertised date of the General Assembly; please call KIPCO's Corporate Communications Department on +965 2294 3477 to arrange this.

Shareholders can request a copy of the Financial Statements to be sent to them by email seven days before the advertised date of the General Assembly; please contact kipco@kipco.com to arrange this.

Shareholders can download a PDF copy of the Financial Statements seven days before the advertised date of the General Assembly from our company website - www.kipco.com

For further information on our 2018 Financial Statements or for extra copies of this Review, please call +965 2294 3477

P.O. Box 23982, Safat 13100, Kuwait
Tel: +965 1805 885
Fax: +965 2294 3479

**www.kipco.com**

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**Kuwait Projects Company (Holding)**