



شركة الساحل للاستثمار والتنمية والاسواق

COAST INVESTMENT & DEVELOPMENT CO. K.S.C.P

Since 1975

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His Highness Sheikh
Sabah Al-Ahmad Al-Jaber Al-Sabah
The Amir Of The State Of Kuwait



His Highness Sheikh
Jaber Mubarak Al-Hamad Al-Sabah
The Prime Minister



His Highness Sheikh
Nawaf Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince



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COAST INVESTMENT & DEVELOPMENT CO. K.S.C.P

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Board of Directors

Anwar Jassim Al Kharafi

Chairman

Bader Mohammad Al Qattan

Vice Chairman

Khaled Abdulaziz Al Usaimi

Board Member

Muneer Abdulmohsen Al Sharhan

Board Member

Mesaed Khalifa Al Kharafi

Board Member

Hamed Yousef Abdullah Al Bader

Board Member



Message From The Chairman

Dear Shareholders of Coast Investment and Development Co.

May the peace and blessings of Allah be upon you.

Economic growth accelerated in most of the world's economies in 2018. Global economic growth remained steady at 3.1% in 2018, while unemployment rates in several developed economies have dropped to historical lows. Many oil exporting countries are continuing a gradual recovery, although they remain exposed to volatile prices. The impact of the sharp drop in fuel prices in 2014/15 also continues to weigh on fiscal and external balances and has left a legacy of higher levels of debt.

Central banks kept interest rates at ultra-low and even negative levels throughout 2018. Although in the United States, the Federal Reserve raised rates for only the fourth time since 2016. The Federal Reserve has since signaled a halt in interest rate rises for the short term.

Equity markets, particularly in the US had an impressive upswing for most of the past two years. Deregulation and tax reform have produced real economic structural change. UK equity markets however had low returns to international investors due to the weakening of the Sterling.

Average oil prices increased overall in 2018. OPEC members were disciplined in their promised production cuts, combined with the surprise announcement in May that the U.S. would reimpose sanctions on Iran. This brought the market back into balance earlier than anticipated and increased the bullish sentiment. However, the price remains volatile and subject to higher volatility in 2019.

Domestically, GDP levels are estimated to have increased to 2.9% in 2018. Inflation averaged just 0.6% overall in 2018, down from 1.5% in 2017, due mostly to softening in price of food and housing. Core inflation also fell, to 1.9% from 3.3% in 2017.



Kuwait Stock Exchange has performed relatively well in 2018, supported by market regulator's upgrade efforts and inclusion in the FTSE Emerging Market index. Despite a drop in monthly trading volumes relative to previous years, 2018 has seen a record KD177 million of net capital inflows. While volatile global markets, rising interest rates and the drop-in oil prices at end of 2018 may weigh on market sentiment going forward, foreign investment will be helped by the second phase of inclusion in the FTSE Emerging Markets Index, besides a possible upgrade by MSCI to be announced in June 2019. Additionally, the Ministry of Commerce in December proposed to remove the current 49% limit on foreign ownership of banks, potentially opening the door for regional and international banks to set a base in Kuwait.

The Kuwaiti real estate sector witnessed a rebound in 2018, with sales rising to the highest levels in 4 years. Rising apartment prices, and business friendly reforms by the Ministry of Commerce & Industry have renewed demand in the residential and commercial sectors.

Internally, the drop in income from the major investments , Namely Kuwaiti German Holding Company ,the major investment of the company , in spite of higher sales figures in addition to its continuous efforts to minimize expenses , besides weaker Euro currency against Kuwaiti Dinar, has led to decline in profit figures than last year.

Thus , this year has ended with net profit of KWD 1.4 million (KWD 2.1 million in 2017), decline in the total assets by 3.19 % and decline in shareholders' equity by 2.77 % for the year .

On this occasion, I would like to extend my sincere appreciation to the shareholders of the company, the board members and all the staff at Coast for their continued and unwavering support. We remain hopeful that Almighty Allah will continue to bestow more success on Coast in the future.

May Allah protect Kuwait and its people from all evil, and again, may peace and blessings of Allah be upon you.

Anwar Jassim Al Kharafi
Chairman



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GOVERNANCE REPORT FOR THE YEAR 2018



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COAST INVESTMENT & DEVELOPMENT CO. K.S.C.P

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GOVERNANCE REPORT FOR THE YEAR 2018

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GOVERNANCE REPORT FOR THE YEAR 2018

1 - Building a Balanced Structure for the Board of Directors

1. The Board of Directors of Coast Investment & Development Company KSCP enjoys a structure that suits the Company's size and nature. The Board includes members who enjoy professional experience, high education standards and specialized talents in addition to a considerable knowledge of the laws as well as their own rights and duties. The Board of Directors consists of the following members:

Name	Member classification (executive / non-executive, independent) / secretary	Education and experience	Date elected / re-elected / Appointment of the secretary
Mr. Anwar Jassim Al-Kharafi	Chairman of the Board of Directors Non-executive	Bachelor of Commerce, 19 years of experience	5.6.2016
Mr. Bader Mohammad Al-Qattan	Deputy Chairman of the Board of Directors, Non-executive member	Bachelor of Mechanical Engineering, 11 years of experience	5.6.2016 14.12.2017
Mr. Khaled Abdulaziz Al-Ussami	Member of the Board of Directors, Non-executive	Bachelor of Industrial Engineering, 28 years of experience in the financial field	5.6.2016
Mr. Muneer Abdulmohsin Al-Sharhan	Member of the Board of Directors, Non-executive	Master of Management, 30 years of experience	5.6.2016
Mr. Mesaed Khalifah Al-Kharafi	Member of the Board of Directors, Non-executive	Master of Business Administration, 7 years of experience	5.6.2016 14.12.2017
Mr. Hamed Yousef Al-Bader	Member of the Board of Directors, Independent	Master of Business Administration, 5 years of experience	5.6.2016 14.12.2017
Mr. Mohammad Rashed Al-Qaoud	Board Secretary	Bachelor of Accounting, 34 years of experience	5.3.2014

2. On 14.12.2017, three members were elected to complement the Board of Directors of Coast Investment and Development Company for the remainder of the Board's term.
3. The meetings of the Board of Directors for 2018 were as follows:

Member's name	Meeting 1	Meeting 2	Meeting 3	Meeting 4	Meeting 5	Meeting 6
	21.1.2018	21.03.2018	15.05.2018	31.07.2018	01.11.2018	24.12.2018
Mr. Anwar Jassim Al-Kharafi Chairman	✓	✓	✓	X	✓	X
Mr. Bader Mohammad Al-Qattan Deputy Chairman	X	✓	✓	✓	✓	✓
Mr. Khaled Abdulaziz Al-Ussami Member	✓	✓	✓	✓	X	✓
Mr. Muneer Abdulmohsin Al-Sharhan Member	✓	✓	✓	✓	✓	✓
Mr. Hamed Yousef Al-Bader (Independent member)	✓	✓	X	✓	✓	X
Mr. Mesaed Khalifa Al-Kharafi (Member)	✓	X	✓	✓	✓	X



GOVERNANCE REPORT FOR THE YEAR 2018

4. On 5.3.2014, the Board of Directors of Coast Investment & Development Company appointed Mr. Mohammad Rashed Al-Qaoud, an employee of the Company in the position of Senior Vice President-Support Group, as secretary of the Board of Directors, and specified his duties and responsibilities according to the charter of the Board of Directors and his job description. The secretary keeps an electronic register of all the minutes of the Board meetings, in serial numbers for the year in which the meetings were held, stating the place and time of each meeting, the start and finish time of each meeting for ease of reference. He also keeps the reports presented to and by the Board of Directors. The secretary is keen to observe the legal times for giving notice of the Board meetings, ensures the proper delivery and distribution of information and coordination among members and stakeholders under the supervision of the Chairman.

2 - Sound identification of duties and responsibilities

1. Coast Investment & Development Company drew down and adopted a charter for the Board of Directors setting forth the responsibilities and prerogatives of each of the Board Chairman and members and the Executive Management members, with a job description for each of them. The Charter specifies the limits of powers and responsibilities vested by the Executive Management to manage the day-to-day matters of the company and the financial and operating powers given to them, while specifying the matters that may not be delegated to the Executive Management or the Chief Executive Officer but require prior Board approval. The Charter has been reviewed and amended several times, most recently on 23.1.2017. The Board has and monitors as set of key performance indicators (KPIs) to follow up the performance of the Board and Executive Management members on a periodical basis.
2. The Board of Directors has three board committees: the Audit Committee, Risk Management Committee and Nominations and Remunerations Committee, each of which has its own charter that sets forth the formation, term, powers and responsibilities of the committee and the way the Board exercises control over it, the respective responsibilities, rights and duties of its members and how they are appraised. The Board made sure that its committees include independent members subject to such conditions and controls as have been laid down by the Capital Markets Authority.

The Audit Committee:

The Audit Committee was formed on 14.11.2016 and re-constituted on 18.12.2017 following the election of 3 complementary board members on 14.12.2017. The Committee consists of:

Name	Title
Mr. Hamed Yousef Al-Bader	Chairman, independent member
Mr. Muneer Abdulmohsen Al-Sharhan	Member
Mr. Bader Mohammad Al-Qattan	Member

The Committee held 7, meetings in 2018 during which it reviewed the internal audit reports on several departments of the company and the remarks they contained, made its own remarks on those reports and the steps that should be taken to avoid them in the future. The Audit Committee recommended the appointment of an external auditor for the company after ensuring his independence. Furthermore, the Committee reviewed the report of the independent audit office which had been commissioned to examine and evaluate the internal control systems. It reviewed the results of the internal audit reports and ensured that the necessary corrective actions have been taken concerning the remarks contained in the reports. The Audit Committee also reviewed the periodical financial statements before they are submitted to the Board, with the Committee's opinion and recommendations to the Board, with a view to ensure the fairness and transparency of financial reports. In addition, the Audit Committee reviewed and approved the internal audit plan for 2018 and 2019.



GOVERNANCE REPORT FOR THE YEAR 2018

The Risk Management Committee

The Risk Management Committee was formed on 14.11.2016 and re-constituted on 18.12.2017 following the election of three complementary board members on 14.12.2017. The Committee consists of:

Name	Title
Mr. Bader Mohammad Al-Qattan	Chairman of the Committee
Mr. Khaled Abdulaziz Al-Usaimi	Member
Mr. Mesaed Khalifa Al-Kharafi	Member

In 2018, the committee held four meetings during which it reviewed the Risk Department's report for the second half of 2017, prepared and approved the risk reports for the first, second and third quarters of 2018 and presented them to the Board of Directors, in addition to amending the organizational structure of the Risk Management Department and presenting it to the Board of Directors.

The Nominations and Remunerations Committee

The Nominations and Remunerations Committee was formed on 14.11.2016. It was re-constituted on 18.12.2017 following the election of 3 complementary board members on 14.12.2017. The Committee consists of:

Name	Title
Mr. Anwar Jassim Al-Kharafi	Chairman of the Committee
Mr. Mesaed Khalifa Al-Kharafi	Member
Mr. Hamed Yousef Al-Bader	Member

The committee held one meeting during 2018, at which the report on the remunerations of the Board of Directors members and Executive Management members for 2017 was prepared and presented to the Board of Directors for approval.

- The Company has created an account for each member of the Board of Directors on the Company's website that would enable the member to access at any time, from any place and through any device all the information he may need on the reports, policies, procedures, minutes of meetings and other information that may help him take decisions. Furthermore, the Board of Directors approved the policy and the procedures for obtaining information by the Board members.
- The Board of Directors took all the necessary measures that enabled it to fulfill all the requirements of corporate governance in addition to observing the provisions of the Executive Regulations of the Capital Markets Authority Law within the deadlines specified by CMA.

3 - Selecting Efficient Persons for Membership of the Board of Directors and the Executive Management

- On 14.11.2016, the Board of Directors formed the Nominations and Remunerations Committee from its members. The Committee was re-constituted on 18.12.2017 following the election of 3 complementary board members on 14.12.2017, and consisted of the following:

Name	Title
Mr. Anwar Jassim Al-Kharafi	Chairman of the Committee
Mr. Mesaed Khalifa Al-Kharafi	Member
Mr. Hamed Yousef Al-Bader	Member

A charter was drawn for this Committee setting forth all the duties and responsibilities vested in it, the method of its formation and its term.



GOVERNANCE REPORT FOR THE YEAR 2018

4 - Ensuring the Integrity of Financial Reports

The Company laid down a mechanism to ensure the soundness and integrity of its financial statements by having those statements submitted to the Audit Committee for review before submitting them to the Board of Directors, with a view to ensure the soundness and transparency of the financial reports, in addition to obtaining written declarations from the Board of Directors and the Executive Management confirming the soundness and integrity of those reports, all in accordance with the International Accounting Standards applicable in the State of Kuwait and approved by the Capital Markets Authority, and confirming that they show the Company's financial position as at 31 December 2018. In addition, the company gave the Audit Committee total independence in exercising its responsibilities and making such recommendations as it may deem appropriate and the right to seek the assistance of any independent advisory party. Furthermore, the Committee has one independent member and another member who has a practical experience in accounting and financial matters. The Committee is also given the right to recommend the appointment, re-appointment or replacement of the Company's external auditor, determine his fees and verify his independence from the Company and its Board of Directors, and ensuring that he fulfills the condition of being registered in the auditors' register at the CMA and satisfies the requirements set forth in the Authority's resolution regulating the registration of auditors.

The Audit Committee's Charter provides that in the event where there is a conflict between the recommendations of the Audit Committee and the resolutions of the Board of Directors, the Board has the right to object to the resolutions of the Audit Committee provided that the annual governance report to the shareholders should state and explain those recommendations and the reason or reasons for the resolution of the Board of Directors not to accept them.

5 - Laying Down Sound Systems for Risk Management and Internal Controls

1. The Company has created a unit for risk management and appointed a risk management officer whose function would be to measure, monitor and minimize all kinds of risks to which the Company is exposed. The risk management officer has been given full independence in exercising his powers and subsequently changed his reporting relationship to report to Risk Management Committee, and, therefore, to the Board of Directors. Furthermore, the Committee laid down and adopted policies and procedures for risk management to be reviewed periodically for amendment whenever needed, including the mechanism for periodical reporting to the Board of Directors. The Company also laid down an appropriate mechanism within the policies and procedures of risk management in order to enable the Risk Management Officer to review the deals and transactions concluded by the Company with related parties and make appropriate recommendations with regard thereto.
2. The Company has drawn a charter for the Risk Management Committee setting forth the method of forming the committee, specifying its responsibilities, powers, term and membership conditions.
3. The Company has established an internal audit unit and appointed an Internal Audit Officer. This unit has full technical independence and reports to the Audit Committee and, therefore, to the Board of Directors. The Company has drawn internal policies and procedures for the Internal Audit Unit, setting forth all its responsibilities, powers and the reports it should prepare in connection with the adequacy and effectiveness of the internal audit systems, identifying the weaknesses in the application of the internal control systems where such weaknesses affect the Company's financial performance and the actions that should be taken in this regard.

The company has appointed an independent audit bureau which evaluated and reviewed the internal control systems in place at the Company for 2018. It also appointed another audit office to review the performance of the Internal Audit Unit. The latter office submitted a report on this assignment to the Audit Committee and the Board of Directors.

6 - Promoting Professional Conduct and Ethical Values

1. The Company drew a Professional Conduct and Ethical Rules Manual to be reviewed and amended from time to time, outlining the standards and controls related to the observance of the laws by every member of the Board of Directors and the Executive Management, avoiding the abuse of power in order to achieve personal benefits and avoiding the exploitation and abuse of the Company's assets for personal purposes. Furthermore, the Company regulated trading based on inside information, the relationship with related parties, disclosure of interests, the reporting of illegitimate practices and the procedure for protecting whistleblowers
2. The Company also drew a policy and procedures for curbing conflicts of interest, addressing events of conflicts



GOVERNANCE REPORT FOR THE YEAR 2018

of interests related to the Board of Directors, the Executive Management, the Company's employees and the external auditor and other events, as well as the procedure that should be followed in every such event.

7- Accurate and Timely Disclosure and Transparency

The Company has laid down policies and procedures related to disclosure, to be reviewed and amended from time to time pursuant to such instructions as may be issued by the Capital Markets Authority. These policies and procedures specifies the financial, administrative and operating information that should be disclosed and the procedures that should be followed in this regard. Additionally, a Shareholders Affairs Unit was established at the company with full independence and responsibility for communicating with prospective shareholders and investors in the Company, providing them with all information that may help them exercise their rights. To this end, the new website of the company shows all the disclosures made by the Company, financial reports and statements, information about the company, Board of Directors and Executive Management, with a special section designated for corporate governance. The Company keeps an electronic register of all disclosures made regarding the company, members of the Board of Directors and the Executive Management. This register may be accessed by all shareholders free of charge and is updated periodically.

8- 9 Respecting Shareholders Rights and Awareness of the Role of Stakeholders

The Board of Directors has adopted a policy and procedures that regulate the Company's relationship with its shareholders and all stakeholders such as its employees, shareholders, creditors, customers and service providers and how their rights and transactions may be protected in all fairness and equality, thereby safeguarding the rights of the Company. The rules of governance laid down by the Capital Markets Authority, and enshrined in the Companies Law, as well articles of association and internal policies of the company and the systems and contracts constitute the key source of reference in determining the rights and duties of both shareholders and stakeholders. The company seeks to specify and clarify those contracts, the rights and duties of counterparties and how to perform them, the consequences of default of performance, the limits of liability and the methods of resolving disputes that may arise from the execution of those contracts in such a way as to protect the interests of stakeholders in their relationship with the Company.

The Company also keeps a register of the names, nationalities and places of domicile of the shareholders and the number of shares owned by each of them. This register is updated periodically according to the information received by the Company and a copy of this register is kept by the clearing agency. The register may be accessed by all shareholders subject to the strictest standards of confidentiality and protection consistent with the provisions of the law.

Shareholders are encouraged to participate in and vote at any meetings or events convoked by the Company's Board of Directors including the invitation to attend the general assembly during 2018 in line with the policies and procedures designed to protect the rights of all shareholders.

10- Performance Enhancement and Improvement

1. An introductory and explanatory bulletin has been drawn and distributed to the members of the Board of Directors in order to ensure that they have an appropriate understanding of the work progress at the Company. The bulletin contained information related to the strategy and objectives of the company at the time, the financial and operational aspects of all the Company's activities, their and the Company's legal and supervisory obligations, their rights and duties and the role of the Board of Directors committees.
2. A policy and procedures related to the key performance indicators (KPIs) was drawn with a view to evaluate the performance of every member of the Board of Directors and the Executive Management on a periodical basis and the extent of the contribution of every member in terms of attending the meetings of the Board and the Committees.
3. The Company relied on the systems integrated reporting as an effective rule in achieving its strategic objectives and creating enterprise values among the employees thereby motivating them to exert continuous efforts to sustain the financial well-being of the Company. Coast Investment & Development Company draws, and reviews reports on a periodic basis, thereby helping both the Board of Directors and the Executive Management to take decisions in a systematic and sound manner with a view to serve the interests of the shareholders.



GOVERNANCE REPORT FOR THE YEAR 2018

11- Focusing on the Importance of Social Responsibility

The Company has drawn a policy and procedures for social responsibility guided by its awareness of the importance of the role it plays within the national economy and Kuwaiti society. Coast Investment and Development Company strongly believes in and embraces its social responsibility as a principle that ensures the sustainability of benefit for its shareholders and all parties who deal with it. The Company continuously seeks to build a work model in this aspect which is firmly based on and deeply rooted in the following elements: market, employees, environment and society.

In line with its corporate social responsibility toward the economy and society, Coast Investment and Development Company has donated toward renovating the computer laboratory at the Faculty of Sciences of Kuwait University, sponsored the first KBA Night Run designed to encourage families in Kuwait to support and promote opportunities in pursuit of a healthier way of life. In pursuit of this noble objective, Coast has designated a section of its website to highlight its role in this field and showcase its future plans in this regard.



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**COAST INVESTMENT & DEVELOPMENT COMPANY K.S.C.P
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2018**



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF COAST INVESTMENT & DEVELOPMENT COMPANY K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current 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.

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

Impairment assessment of investment in associates

The Group's investment in associates amounted to KD 37,769,857 as at 31 December 2018 (2017: KD 38,253,650), representing 66% (2017: 64%) of the total assets of the Group. Investment in associates are accounted for under the equity method of accounting. At the end of each reporting date, the Group determines whether there is objective evidence that the investment in associates is impaired. If such indication exists, the entire carrying value of the investment in associate will be tested for impairment by comparing the carrying value of the investment to its recoverable amount. The recoverable amount of investment in associates is determined based on value-in-use calculations which require the use of



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF COAST INVESTMENT & DEVELOPMENT COMPANY K.S.C.P. (continued)

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

Impairment assessment of investment in associates (continued)

assumptions such as estimated future cash flow projections, terminal value growth rate and appropriate discount rates.

Given the significant judgments and estimates involved in the impairment assessment of investment in associates, we have considered this as a key audit matter.

Our audit procedures included, amongst others, the following:

- We evaluated management's considerations of the impairment indicators of investment in associates and the qualitative and quantitative factors used such as the investee's financial performance including dividends, and market, economic or legal environment in which the associates operates.
- We assessed management's assumptions, including the comparison of relevant assumptions to industry benchmarks, economic forecasts, formal approved budgets and benchmark the accuracy of the management's budget and forecast to actual performance in prior years.
- We involved our internal valuation specialists to challenge the significant assumptions and valuation methods used by the management, and the reasonableness and appropriateness of those assumptions and methods in the circumstances.
- We evaluated the adequacy of the Group's disclosures in Notes 7 and 18 to the consolidated financial statements, including disclosures of key assumptions, judgements and sensitivity analysis.

Valuation of investment securities

The Group's investment securities represent 22% of the Group's total assets classified as financial assets at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI), of which KD 6,342,995 are measured at fair value using significant observable inputs (Level 2) and KD 6,193,343 using significant unobservable inputs (Level 3), as disclosed in Note 18 to the consolidated financial statements.

The valuation of the Group's investment securities involves the use of assumptions and estimates, predominantly for the instruments classified within Level 2 and Level 3 of the fair value hierarchy. The key inputs to these models require a considerable degree of judgement by management in establishing fair values and include the determination of price to book multiples from comparable companies, identification of recent sales transactions, calculated Net Asset Value (NAV) and fair value from third party managers including application of illiquidity discounts in certain cases.

Given the size and complexity of the valuation of investment securities and the importance of the disclosures relating to the assumptions used in the valuation, we addressed this as a key audit matter.

Our audit procedures included, amongst others, the following:

- For valuations which used significant both observable and unobservable inputs, we have tested the source data used in the valuations, to the extent possible, to independent sources and externally available market data to evaluate the data's relevance, completeness and accuracy.
- We have evaluated the appropriateness of the models used to what we considered to be available alternative valuation methods. We have also evaluated the reasonableness of the significant judgments and assumptions applied to the valuation models, including appropriateness of the comparable listed companies' selection, the pricing multiples and discounts for lack of marketability.



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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS
OF COAST INVESTMENT & DEVELOPMENT COMPANY K.S.C.P. (continued)
Report on the Audit of the Consolidated Financial Statements (continued)
Impairment assessment of investment in associates (continued)**

- We evaluated whether the external management expert has the necessary competency, capabilities and objectivity for audit purposes.
- We assessed the adequacy and the appropriateness of the Group's disclosures concerning fair value measurement of investment securities and the sensitivity to changes in unobservable inputs in Note 18 to the consolidated financial statements.

Other information in the Group's 2018 Annual Report

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

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

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

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

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

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

Those charged with governance is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are



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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS
OF COAST INVESTMENT & DEVELOPMENT COMPANY K.S.C.P. (continued)
Report on the Audit of the Consolidated Financial Statements (continued)
Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)**

considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- 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.



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF COAST INVESTMENT & DEVELOPMENT COMPANY K.S.C.P. (continued)
Report on the Audit of the Consolidated Financial Statements (continued)
Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

Report on Other Legal and Regulatory Requirements

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

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

BADER A. AL-ABDUL JADER
LICENCE NO. 207 A
EY
AL AIBAN AL Osaimi & Partners

31 March 2019
Kuwait



CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
INCOME			
Net investment income	4	938,760	801,975
Management fees		409,512	591,209
Other income		34,289	22,013
Share of results of associates	7	1,387,077	1,838,465
Net foreign exchange differences		(118,266)	372,778
		<u>2,651,372</u>	<u>3,626,440</u>
EXPENSES			
Staff cost		(928,158)	(931,524)
General and administrative expenses		(225,075)	(333,574)
Depreciation	6	(11,375)	(8,291)
Finance costs		(3,929)	(4,480)
Impairment loss on other receivables		-	(94,750)
		<u>(1,168,537)</u>	<u>(1,372,619)</u>
PROFIT BEFORE TAX		1,482,835	2,253,821
National Labour Support Tax (NLST)		(36,502)	(58,017)
Zakat		(10,874)	(13,335)
PROFIT FOR THE YEAR		1,435,459	2,182,469
Attributable to:			
Equity holders of the Parent Company		1,435,459	2,182,469
Non-controlling interests		-	-
		<u>1,435,459</u>	<u>2,182,469</u>
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		2.46 fils	3.74 fils

The attached notes 1 to 20 form part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 KD	2017 KD
Profit for the year	1,435,459	2,182,469
Other comprehensive (loss) income:		
<i>Other comprehensive (loss) income that may be reclassified to profit or loss in subsequent periods:</i>		
Available-for-sale financial assets (IAS 39):		
- Net change in fair value	-	(967,005)
- Re-classification adjustment on disposal of available-for-sale financial assets	-	185,776
- Recycled to profit or loss on impairment of available-for-sale financial assets	-	(262,485)
Net loss on available-for-sale financial assets	-	(1,043,714)
Share of other comprehensive income of associates	77,412	815,199
Exchange differences on translation of foreign operations	(707,347)	2,122,306
Net other comprehensive (loss) income that may be reclassified to profit or loss in subsequent periods	(629,935)	1,893,791
<i>Other comprehensive (loss) income that will not be reclassified to profit or loss in subsequent periods:</i>		
Net gain on equity instruments designated at fair value through other comprehensive income	32,058	-
Share of other comprehensive income of associates	(234,931)	910,512
Net other comprehensive (loss) income that will not be reclassified to profit or loss in subsequent periods	(202,873)	910,512
Other comprehensive (loss) income for the year	(832,808)	2,804,303
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	602,651	4,986,772
Attributable to:		
Equity holders of the Parent Company	601,810	4,986,621
Non-controlling interests	841	151
	602,651	4,986,772

The attached notes 1 to 20 form part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 KD	2017 KD
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,088,617	1,081,319
Investment property		151,650	150,875
Investment in associates	7	37,769,857	38,253,650
Financial assets at fair value through profit or loss	8	11,405,699	-
Financial assets at fair value through other comprehensive income	8	1,130,639	11,910,095
Prepayments and other assets	9	2,180,251	3,107,435
		53,726,713	54,503,374
Current assets			
Financial assets at fair value through profit or loss	8	31,142	17,388
Prepayments and other assets	9	578,333	579,856
Cash and cash equivalents	10	3,268,369	4,404,557
		3,877,844	5,001,801
TOTAL ASSETS		57,604,557	59,505,175
EQUITY AND LIABILITIES			
Equity			
Share capital	11	62,529,315	62,529,315
Statutory reserve	11	11,647,495	11,647,495
Voluntary reserve	11	1,991,146	1,991,146
Treasury shares	11	(4,775,819)	(4,775,819)
Treasury shares reserve		25,702	25,702
Other reserve		71,082	306,013
Foreign currency translation reserve		1,676,847	2,307,623
Fair value reserve		(1,854,616)	247,064
Accumulated losses		(15,310,408)	(16,677,931)
Equity attributable to equity holders of the Parent Company		56,000,744	57,600,608
Non-controlling interests		32,546	31,705
Total equity		56,033,290	57,632,313
Liabilities			
Non-current liabilities			
Employees' end of service benefits	12	238,455	258,795
Current liabilities			
Other liabilities	13	1,332,812	1,614,067
Total liabilities		1,571,267	1,872,862
TOTAL EQUITY AND LIABILITIES		57,604,557	59,505,175

Anwar Jassim Al-Kharafi
Chairman

Thamer Nabeel Al Neseef
Chief Executive Officer

The attached notes 1 to 20 form part of these consolidated financial statements.



COAST INVESTMENT & DEVELOPMENT CO. K.S.C.P

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Attributable to equity holders of the Parent Company

	Share capital		Statutory reserve		Voluntary reserve		Treasury shares		Treasury shares reserve		Other reserve		Foreign currency translation reserve		Fair value reserve		Accumulated losses		Sub-total		Non-controlling interests		Total	
	KD		KD		KD		KD		KD		KD		KD		KD		KD		KD		KD		KD	
As at 1 January 2018 as previously reported (audited)	62,529,315		11,647,495		1,991,146		(4,775,819)		25,702		306,013		2,307,623		247,064		(16,677,931)		57,600,608		31,705		57,632,313	
Transition adjustment on initial application of IFRS 9 at 1 January 2018 (Note 2.3)	-		-		-		-		-		-		(2,133,738)		(67,936)		(2,201,674)		-		-		(2,201,674)	
Balance as at 1 January 2018 (restated)	62,529,315		11,647,495		1,991,146		(4,775,819)		25,702		306,013		2,307,623		(1,886,674)		(16,745,867)		55,398,934		31,705		55,430,639	
Profit for the year	-		-		-		-		-		-		-		-		1,435,459		1,435,459		-		1,435,459	
Other comprehensive (loss) income for the year	-		-		-		-		-		(234,931)		(630,776)		32,058		-		(833,649)		841		(832,808)	
Total comprehensive (loss) income for the year	-		-		-		-		-		(234,931)		(630,776)		32,058		1,435,459		601,810		841		602,651	
As at 31 December 2018	62,529,315		11,647,495		1,991,146		(4,775,819)		25,702		71,082		1,676,847		(1,854,616)		(15,310,408)		56,000,744		32,546		56,033,290	
As at 1 January 2017	62,529,315		11,647,495		1,991,146		(5,214,557)		235,947		(604,499)		(629,731)		1,290,778		(18,860,400)		52,385,494		31,554		52,417,048	
Profit for the year	-		-		-		-		-		-		-		-		2,182,469		2,182,469		-		2,182,469	
Other comprehensive income (loss) for the year	-		-		-		-		-		910,512		2,937,354		(1,043,714)		-		2,804,152		151		2,804,303	
Total comprehensive income (loss) for the year	-		-		-		-		-		910,512		2,937,354		(1,043,714)		2,182,469		4,986,621		151		4,986,772	
Sale of treasury shares	-		-		-		438,738		(210,245)		-		-		-		-		228,493		-		228,493	
As at 31 December 2017	62,529,315		11,647,495		1,991,146		(4,775,819)		25,702		306,013		2,307,623		247,064		(16,677,931)		57,600,608		31,705		57,632,313	

The attached notes 1 to 20 form part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 KD	2017 KD
OPERATING ACTIVITIES			
Profit for the year before tax		1,482,835	2,253,821
<i>Adjustments to reconcile profit before tax to net cash flows:</i>			
Share of results of associates	7	(1,387,077)	(1,838,465)
Unrealised loss on financial assets at fair value through profit or loss	4	72,738	3,750
Net gain on available-for-sale financial assets	4	-	(998,294)
Interest income	4	(128,700)	(90,427)
Dividend income	4	(116,538)	(8,516)
Depreciation	6	11,375	8,291
Impairment loss on other receivables		-	94,750
Impairment loss on financial assets available-for-sale financial assets	4,8	-	262,485
Other income		(34,289)	(22,013)
Finance costs		3,929	4,480
End of service benefits	12	87,183	91,970
		(8,544)	(238,168)
<i>Changes in operating assets and liabilities:</i>			
Financial assets at fair value through profit or loss		(2,882,351)	13,903
Prepayments and other assets		962,996	802,437
Other liabilities		(38,739)	93,102
Cash (used in) from operations		(1,966,638)	671,274
End of service benefits paid	12	(107,523)	(16,596)
Taxes paid		(289,892)	(228,573)
Net cash (used in) from operating activities		(2,364,053)	426,105
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	6	(18,673)	(19,638)
Proceeds from disposals and redemptions of available-for-sale financial assets		-	2,611,672
Purchase of available-for-sale financial assets		-	(1,936,632)
Proceeds from capital redemption of an associate	7	1,005,878	1,505,236
Interest income received		128,700	43,539
Dividend income received		116,538	8,516
Net cash from investing activities		1,232,443	2,212,693
FINANCING ACTIVITIES			
Proceeds from sale of treasury shares		-	228,493
Finance costs paid		(3,929)	(4,480)
Net cash (used in) from financing activities		(3,929)	224,013
Net foreign exchange differences		(649)	(3,150)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(1,136,188)	2,859,661
Cash and cash equivalents at 1 January	10	4,404,557	1,544,896
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	10	3,268,369	4,404,557

The attached notes 1 to 20 form part of these consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

1 CORPORATE INFORMATION

The consolidated financial statements of the Coast Investment & Development Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 28 March 2019, and the shareholders have the power to amend these consolidated financial statements at the annual general assembly meeting ("AGM").

The Parent Company is a public shareholding company incorporated on 29 July 1975. The Parent Company is engaged in various types of investment management activities such as private equity, asset management and real estate investments in local and international markets. The Parent Company is regulated by the Central Bank of Kuwait ("CBK") as an investment and finance company and is subject to the supervision of Capital Markets Authority ("CMA").

The Parent Company's registered office is at P.O. Box 26755, Safat 13128, State of Kuwait.

The activities of the Parent Company are carried out in accordance with Articles of Association. The principal activities of the Parent Company are:

- To carry out all operations relating to securities, including sale and purchase of shares and bonds of companies, governmental and semi-governmental corporations, for its own account or for the account of others.
- Management of financial portfolios and investment and development of its customers' funds by deployment of their funds in investment fields locally and internationally.
- To carry out all financial transactions including borrowing and lending, guarantees and issuing bonds of all types with or without security in the local and international markets.
- To establish and manage investment funds for its own account and for the account of others, offering its units for subscription and undertaking the functions of the investment custodian or investment manager for investment funds inside and outside the country in accordance with the laws and resolutions applicable in the state.
- To carry out the duties related to the functions of lead managers and investment custodians of bonds issued by companies or authorities.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on a historical cost basis except for investment securities and investment properties that have been measured at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the functional and presentational currency of the Parent Company.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The nature and effect of the changes as a result of adoption of these new



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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.

IFRS 9 - Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings and other components of equity.

(a) Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI"), and amortised cost ("AC"). The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows ("CCC") represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The assessment of the Company's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The following are the changes in the classification of the Company's financial assets:

- Prepayments and other assets classified as 'Loans and receivables' under IAS 39 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as 'Debt instruments at amortised cost' beginning 1 January 2018;
- Equity securities that the Company intends to hold for the long term for strategic purposes have been irrevocably designated at the date of initial application as measured at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be recycled to the statement of profit or loss.
- Debt securities formerly classified as available-for-sale ("AFS") financial assets as at 31 December 2017 and that have failed to meet the SPPI criterion have been classified and measured at FVTPL under IFRS 9;

The Company has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Company's financial liabilities.

The IFRS 9 impact of required or elected reclassifications as at 1 January 2018 is disclosed below under 'Transition impact'.

(b) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'Expected Credit Loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The Group is required to calculate provision for credit losses on loans and advances in accordance with the instructions issued by the CBK. Impairment of loans and advances shall



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 9: Financial Instruments (continued)

be recognised at the higher of ECL under IFRS 9 per CBK guidelines, and the provision required by the CBK instructions. IFRS 9 requires the Group to recognise an allowance for ECLs for all other debt instruments not held at fair value through profit or loss.

The Group's accounting policies for impairment of financial assets is explained in Note 2.4. The quantitative impact of adoption of IFRS 9 as at 1 January 2018 is disclosed under 'Transition impact' below.

(c) Hedge Accounting

At the date of initial application, the Group had no existing hedging relationships and therefore the new general hedge accounting model in IFRS 9 has no impact on the Group.

Transition impact

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except 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 2017 under IFRS 9.
- b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
 - The determination of the nature of the financial instrument (i.e. debt or equity instrument);
 - The designation of certain equity instruments (i.e. FVTPL or FVOCI without recycling);
 - The determination of business model within which a debt instrument is held;
 - The designation of certain debt instruments as financial assets as measured at amortised costs, FVOCI (with recycling) or FVTPL.

The following table analysis the impact of transition to IFRS 9 on accumulated losses and equity reserves.

	<i>Fair value reserve</i>	<i>Accumulated losses</i>
	KD	KD
Closing balance 31 December 2017 - IAS 39	247,064	(16,677,931)
Impact on reclassification and re-measurements:		
Reclassification of debt instruments from AFS to FVTPL	(247,064)	247,064
Fair value measurement of equity investments previously measured at cost less impairment	(1,886,674)	(315,000)
Net impact on reclassification and re-measurements	(2,133,738)	(67,936)
Opening balance 1 January 2018 - IFRS 9	(1,886,674)	(16,745,867)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 9: Financial Instruments (continued)

Classification of financial instruments 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 as at 1 January 2018.

	<i>Original classification under IAS 39</i>	<i>New classification under IFRS 9</i>	<i>Original carrying amount under IAS 39</i>	<i>Transition adjustment</i>	<i>New carrying amount under IFRS 9</i>
			<i>KD</i>	<i>KD</i>	<i>KD</i>
Cash and cash equivalents	Loans and receivables	Amortised cost	4,404,557	-	4,404,557
Investment securities (Quoted equities)	FVTPL	FVTPL	17,388	-	17,388
Investment securities (Unquoted funds) (a)	AFS	FVTPL	8,924,840	(315,000)	8,609,840
Investment securities (Unquoted equities) (b)	AFS	FVOCI	2,985,255	(1,886,674)	1,098,581
Other assets (c)	Loans and receivables	Amortised cost	3,687,291	-	3,687,291
Total financial assets			20,019,331	(2,201,674)	17,817,657

(a) *Reclassification from AFS to FVTPL*

Certain investments in funds were reclassified from AFS to financial assets at FVTPL (KD 7,274,839 as at 1 January 2018). They do not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest. Related fair value losses of KD 67,936 were transferred from the fair value reserve to accumulated losses on 1 January 2018.

(b) *Reclassification from AFS to FVOCI*

The Group elected to present OCI changes in the fair value of certain unquoted equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments. As a result, the assets with a fair value of KD 2,985,255 were reclassified from available-for-sale financial assets to financial assets at FVOCI. Related fair value losses of KD 2,133,738 was recognised in the fair value reserve in relation to these assets from the adoption of IFRS 9.

(c) The financial assets at amortised cost are after reclassifications and adjustments arising from the adoption of IFRS 9 and include receivables and other financial assets at amortised cost.

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Classification of financial instruments on the date of initial application of IFRS 9 (continued)

IFRS 15 – Revenue from Contracts with customers

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

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

IFRS 15 did not have a significant impact on the Group's accounting policies as revenue streams mainly comprise of management fees.

2.3 STANDARDS ISSUED BUT NOT EFFECTIVE

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

IFRS 16 Leases

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

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

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

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

The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 STANDARDS ISSUED BUT NOT EFFECTIVE (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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

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

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

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 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 are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into 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 loss of control, is accounted for as an equity transaction.

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

The subsidiaries of the Group are as follows:

Name of the company	Country of incorporation	Effective equity interest		Principal activities
		2018	2017	
<i>Directly held</i>				
Coast Investments Limited ("CIL")	British Virgin Islands	100%	100%	Investment services
Coast Holding Corporation ("CHC")	United States of America	100%	100%	Investment services
<i>Held through CHC</i>				
Winters Estate LLC ("Winters")	United States of America	80%	80%	Real estate services



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

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

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

Where goodwill 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.

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 requirements for provisions in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

Investment in associates

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

The Group's investment in its associates is accounted for under the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)

to an associate is included in the carrying amount of the investment and is not amortised nor separately tested for impairment.

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

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

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

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

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

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period;
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period;

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents (continued)

- It is due to be settled within twelve months after the reporting period;
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Financial instruments

In the current period the Group has adopted IFRS 9 *Financial Instruments*. See Note 4 for an explanation of the impact. Comparative figures for the year ended 31 December 2017 have not been restated. Therefore, financial instruments in the comparative period are still accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

a) Recognition and initial measurement

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

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

b) Classification and subsequent measurement

Financial assets - Policy effective from 1 January 2018 (IFRS 9)

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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

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

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

b) Classification and subsequent measurement (continued)

Financial assets – Business model assessment: Policy applicable from 1 January 2018

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

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

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

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

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

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

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

Financial assets – Policy applicable before 1 January 2018

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

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans, borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include dividend payables, tax payables and other liabilities.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

c) Derecognition

Financial assets

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

Financial liabilities

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

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

d) Offsetting

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

Impairment of financial assets - Policy applicable from 1 January 2018

Financial instruments and contract assets

The Group recognises an allowance for expected credit losses (ECLs) on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets

Equity investments are not subject to ECLs.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Impairment of other financial assets other than credit facilities

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Group applies a three-stage approach to measure the expected credit loss as follows:

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of other financial assets other than credit facilities (continued)

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

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.

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.

The Group considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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.

Available-for-sale financial assets

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

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When 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 statement of profit or loss – is removed from OCI and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

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 taking into account the contractually defined terms of payment and excluding discounts. 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 most of its revenue arrangements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets - Policy applicable before 1 January 2018 (continued)

Revenue recognition

The following specific recognition criteria must also be met before revenue is recognised

Fee and commission income

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, asset management fees, and other management and advisory fees.

Finance income

Finance income is presented separately from revenue from contracts with customers in the statement of profit or loss and is recognised at it accrues using the effective interest rate method.

Taxes

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 certain income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

National Labour Support Tax ('NLST')

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 year. 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.

Zakat

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

Property, plant and equipment

Capital work in progress is stated at cost, net of accumulated impairment losses, if any. Except for leasehold land stated at revalued amount, property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Freehold land is not depreciated.

The estimated useful lives are, as follows:

- Buildings 20 years
- Office equipment 3-5 years

An item of property and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation of these assets commences when the assets are ready for their intended use.

Leases

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

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

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

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

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

Group as a lessor

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

Impairment of non-financial assets

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

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

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

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

Intangible assets with indefinite useful lives are tested for impairment annually as at the reporting date at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Provisions

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

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. 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 statement of profit or loss, net of any reimbursement.

Employees' end of service benefits

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

In addition, with respect to its Kuwaiti national employees, the Group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. These contributions are expensed when due.

Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares (continued)

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.

Other reserve

Other reserve is used to record the effect of changes in ownership interest in subsidiaries, without loss of control and the re-measurements comprising of actuarial gains and losses and return on plan assets for defined benefit plans.

Fiduciary assets

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

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 Parent Company 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.

Foreign currency translation

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

Transactions and balances

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

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

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

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance,



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Transactions and balances (continued)

the Group determines the transaction date for each payment or receipt of advance consideration.

Group companies

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

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

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 reporting date.

Dividend income

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

Contingencies

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

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

Events after the reporting period

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

3 SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

3.1 Significant judgments

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

3 SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.1 Significant judgments (continued)

Classification of financial assets

Effective from 1 January 2018 (IFRS 9)

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Effective before 1 January 2018 (IAS 39)

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

Impairment of available for sale financial assets

Effective before 1 January 2018 (IAS 39)

The Group treats the available-for-sale financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group considered a decline of 30% to be significant and a period of 12 months to be prolonged.

3.2 Estimates and assumptions

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

Impairment of associates

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

Useful lives of depreciable assets

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

Impairment of financial assets at amortised cost

Effective before 1 January 2018 (IAS 39)

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

Effective from 1 January 2018 (IFRS 9)

The Company assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

3 SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.2 Estimates and assumptions (continued)

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

Fair value measurement

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

4 NET INVESTMENT INCOME

	2018 KD	2017 KD
Realised gain (loss) on financial assets at fair value through profit or loss	766,260	(29,027)
Unrealised gain loss on financial assets at fair value through profit or loss	(72,738)	(3,750)
Net gain on sale of available-for-sale financial assets	-	998,294
Impairment loss on available-for-sale financial assets (Note 8)	-	(262,485)
Interest income	128,700	90,427
Dividend income	116,538	8,516
	<u>938,760</u>	<u>801,975</u>

5 EARNINGS PER SHARE ("EPS")

Basic EPS is calculated by dividing the profit for the year attributable to the ordinary equity holders of the Parent Company by the weighted average number of shares outstanding during the year less treasury shares. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares less weighted average number of treasury shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	2018	2017
Profit for the year attributable to shareholders of the Parent Company (KD)	<u>1,435,459</u>	<u>2,182,469</u>
Weighted average number of shares outstanding (shares)*	<u>584,473,066</u>	<u>584,185,395</u>
Basic and diluted EPS (fils)	<u>2.46 fils</u>	<u>3.74 fils</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

5 EARNINGS PER SHARE ("EPS") (continued)

* The weighted average number of shares takes into account the weighted average effect of changes in treasury shares during the year.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these consolidated financial statements.

6 PROPERTY, PLANT AND EQUIPMENT

	<i>Land</i> KD	<i>Building</i> KD	<i>Office equipment</i> KD	<i>Total</i> KD
<i>Cost:</i>				
As at 1 January 2018	1,052,750	561,000	440,094	2,053,844
Additions	-	-	18,673	18,673
As at 31 December 2018	1,052,750	561,000	458,767	2,072,517
<i>Accumulated depreciation:</i>				
As at 1 January 2018	-	(561,000)	(411,525)	(972,525)
Charge for the year	-	-	(11,375)	(11,375)
As at 31 December 2018	-	(561,000)	(422,900)	(983,900)
<i>Net book value:</i>				
As at 31 December 2018	1,052,750	-	35,867	1,088,617
	<i>Land</i> KD	<i>Building</i> KD	<i>Office equipment</i> KD	<i>Total</i> KD
<i>Cost:</i>				
As at 1 January 2017	1,052,750	561,000	420,696	2,034,446
Additions	-	-	19,638	19,638
Disposals	-	-	(240)	(240)
As at 31 December 2017	1,052,750	561,000	440,094	2,053,844
<i>Accumulated depreciation:</i>				
As at 1 January 2017	-	(561,000)	(403,474)	(964,474)
Charge for the year	-	-	(8,291)	(8,291)
Relating to disposals	-	-	240	240
As at 31 December 2017	-	(561,000)	(411,525)	(972,525)
<i>Net book value:</i>				
As at 31 December 2017	1,052,750	-	28,569	1,081,319



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

7 INVESTMENT IN ASSOCIATES

Details of associates are set out below:

Company	Country of incorporation	Equity interest %		Principal activities	Carrying value	
		2018	2017		2018 KD	2017 KD
Rico GmbH	Germany	23.73	23.73	Manufacturing	2,507,555	2,581,104
Kuwaiti German Holding Company K.S.C. (Closed) ("KGH")*	Kuwait	23.41	23.41	Investing activities	17,186,692	17,952,851
Weinig International AG	Germany	12.37	12.37	Manufacturing	18,075,610	17,719,695
					37,769,857	38,253,650

* KGH has a direct ownership of 52% in Weinig International AG.

A reconciliation of the summarised financial information to the carrying amount of the associates is set out below:

Reconciliation to carrying amounts	2018 KD	2017 KD
At 1 January	38,253,650	34,066,863
Share of results	1,387,077	1,838,465
Net share of other comprehensive income	(157,519)	1,725,711
Capital redemption	(1,005,878)	(1,505,236)
Foreign exchange adjustments	(707,473)	2,127,847
At 31 December	37,769,857	38,253,650

The following table illustrates the summarised financial information of the associates that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and not the Group's share of those amounts:

	Rico GmbH KD	KGH KD	Weinig International AG KD	2018 KD
Total assets	14,721,598	167,402,313	139,715,362	321,839,273
Total liabilities	(4,154,034)	(102,690,621)	(76,109,124)	(182,953,779)
Equity	10,567,564	64,711,692	63,606,238	138,885,494
Goodwill	-	2,036,391	10,206,564	12,242,955
Group's carrying amount of the investment	2,507,555	17,186,692	18,075,610	37,769,857



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

7 INVESTMENT IN ASSOCIATES (continued)

	<i>Rico GmbH</i> KD	<i>KGH</i> KD	<i>Weinig International</i> AG KD	2017 KD
Total assets	14,998,521	171,755,696	137,927,593	324,681,810
Total liabilities	(4,121,005)	(103,771,499)	(80,248,396)	(188,140,900)
Equity	10,877,516	67,984,197	57,679,197	136,540,910
Goodwill	-	2,036,391	10,583,913	12,620,304
Group's carrying amount of the investment	2,581,104	17,952,851	17,719,695	38,253,650

	<i>Rico GmbH</i> KD	<i>KGH</i> KD	<i>Weinig International</i> AG KD	2018 KD
Revenue	13,860,775	164,767,591	163,427,998	342,056,364
Profit	742,219	2,728,462	7,692,648	11,163,329
Other comprehensive (loss) income	-	(2,945,692)	504,062	(2,441,630)
Total comprehensive (loss) income	742,219	(217,230)	8,196,710	8,721,699
Group's share of profit for the year	176,120	259,261	951,696	1,387,077

	<i>Rico GmbH</i> KD	<i>KGH</i> KD	<i>Weinig International</i> AG KD	2017 KD
Revenue	13,658,206	153,286,571	151,344,345	318,289,122
Profit	965,804	4,191,122	8,779,640	13,936,566
Other comprehensive income	-	10,177,523	154,107	10,331,630
Total comprehensive income	965,804	14,368,645	8,933,747	24,268,196
Group's share of profit for the year	236,569	515,723	1,086,173	1,838,465



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

7 INVESTMENT IN ASSOCIATES (continued)

Impairment assessment of Weinig International AG

Management considered the performance outlook and business operations of the CGU to determine whether the carrying amount does not exceed the recoverable amount.

The recoverable amount was estimated based on the present value of the future cash flows expected to be derived from the CGU (value in use). The value in use calculation is determined based on reasonable and supportable assumptions concerning projections approved by management (as part of the budget).

These cash flows cover a five-year period using an average annual growth rate of 6.88% over the forecast period based on past performance and management's expectations of market development. The discount rate applied to cash flow projections is 7.38% (2017: 7.62%) and cash flows beyond the five-year budget period are extrapolated using a 1.50% long-term growth rate (2017: 3%).

As a result of the analysis, the recoverable amount of the entire CGU based on the value in use as at 31 December 2018 was estimated to be KD 33,808,429, hence exceeding the carrying value by KD 15,732,819. Accordingly, management did not identify an impairment loss during the year ended 31 December 2018.

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

- Annual revenue growth rate during the forecast period
- Discount rate
- Long-term growth rates (terminal value) used to extrapolate cash flows beyond the forecast period

Sensitivity to changes in assumptions

Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the associate to exceed its recoverable amount. These are summarised below:

- A decline in the annual revenue growth rate during the forecast period by 1% would result in a decrease in the recoverable value by KD 6,415,259.
- A rise in the discount rate to 7.88% (i.e. +0.5%) would result in a decrease in the recoverable value by KD 5,966,359.
- A reduction in the long-term growth rate to 1% (i.e. -0.5%) would result in a decrease in the recoverable value by KD 4,546,698.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

8 INVESTMENT SECURITIES

	2018 KD	2017 KD
<i>New classification under IFRS 9</i>		
Non-current		
Mutual fund at FVTPL	6,342,995	-
Private equity funds at FVTPL	3,726,127	-
Unquoted equity securities at FVTPL	1,336,577	-
Unquoted equity at FVOCI	1,130,639	-
	<u>12,536,338</u>	<u>-</u>
Current		
Quoted equity securities at FVTPL	31,142	-
	<u>12,567,480</u>	<u>-</u>
<i>Original classification under IAS 39</i>		
Mutual fund	-	3,828,432
Private equity funds	-	3,430,157
Unquoted equity securities	-	4,635,256
Quoted equity securities	-	16,250
	<u>-</u>	<u>11,910,095</u>
AFS financial assets	-	11,910,095
	<u>-</u>	<u>11,910,095</u>
Financial assets designated at FVTPL	-	17,388
	<u>-</u>	<u>17,388</u>

At 31 December 2017, certain equity instruments amounting to KD 4,635,256 that do not have a quoted price in active market and whose fair value cannot be measured reliably were accounted at cost (in accordance with IAS 39). These instruments have been measured at fair value at the date of initial application of IFRS 9. Any difference between the previous carrying amount and the fair value is recognised in the opening retained earnings or OCI, as appropriate (Note 4).

As at 31 December 2017, management performed a review of its AFS to assess whether impairment has occurred in the value of these financial assets and accordingly, recorded an impairment loss of KD 262,485 in the consolidated statement of profit or loss for the year then ended (Note 4).

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques is presented in Note 18.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

9 PREPAYMENTS AND OTHER ASSETS

	2018 KD	2017 KD
Non-current		
Promissory note (Note 14)	1,777,807	2,707,048
Other receivables	402,444	400,387
	<u>2,180,251</u>	<u>3,107,435</u>
Current		
Advances and prepayments	13,110	29,265
Accrued income	261,321	192,893
Other receivables	303,902	357,698
	<u>578,333</u>	<u>579,856</u>
	<u><u>2,758,584</u></u>	<u><u>3,687,291</u></u>

Accrued income consists of management fees KD 82,248 (2017: KD 71,397) which is fully collateralised by the underlying assets of the fund which the Group manages.

10 CASH AND CASH EQUIVALENTS

	2018 KD	2017 KD
Short-term deposits	2,919,554	2,922,206
Cash at banks and on hand	348,815	1,482,351
	<u>3,268,369</u>	<u>4,404,557</u>

Short-term deposits are made for varying periods between one and three months, depending on the immediate cash requirements of the Group, and earn interest at an average rate of 2.03% per annum (2017: 1.02% per annum).

11 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised, issued and paid-up capital of the Parent Company consists of 625,293,152 shares (2017: 625,293,152 shares) of 100 fils per share, which are fully paid in cash.

b) Statutory reserve

In accordance with the Companies' Law, and the Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before KFAS, NLST and Zakat and board of directors' remuneration shall be transferred to the statutory reserve based on the recommendation of the Company's board of directors. The annual general assembly of the Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

No transfer has been made to the statutory reserve since the Parent Company incurred accumulated losses.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

11 SHARE CAPITAL AND RESERVES (continued)

c) Voluntary reserve

In accordance with the Companies' Law, and the Company's Memorandum of Incorporation and Articles of Association, a maximum of 10% of the profit for the year before KFAS, NLST and Zakat is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve.

No transfer has been made to the voluntary reserve since the Parent Company incurred accumulated losses.

d) Treasury shares

	2018	2017
Number of shares	40,820,086	40,820,086
Percentage of total outstanding shares (%)	6.53%	6.53%
Market value (KD)	1,338,898	1,326,653
Cost (KD)	4,755,819	4,755,819

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

e) Distributions made and proposed

The Board of Directors proposed not to distribute cash dividends or bonus shares for the year ended 31 December 2018 (2017: Nil). This proposal is subject to approval of the Parent Company's shareholders in the AGM.

12 EMPLOYEES' END OF SERVICE BENEFITS

Movement in the provision for employees' end of service benefits is as follows:

	2018 KD	2017 KD
As at 1 January	258,795	183,421
Charge for the year	87,183	91,970
Employees' end of service benefits paid	(107,523)	(16,596)
As at 31 December	238,455	258,795

13 OTHER LIABILITIES

	2018 KD	2017 KD
Dividend payable	202,609	210,146
Tax payable	992,421	1,234,937
Other liabilities	137,782	168,984
	1,332,812	1,614,067



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

14 RELATED PARTY DISCLOSURES

These represent transactions with related parties, i.e. major shareholders, associates, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. All related party transactions are carried out on terms approved by the Parent Company's management.

The following table shows the aggregate value of transactions and outstanding balances with related parties:

	<i>Associates</i> KD	2018 KD	<i>2017</i> KD
Consolidated statement of financial position			
Promissory note (included in non- current assets) (Note 9)	1,777,807	1,777,807	2,707,048

Promissory note bears an average interest rate of 1.18 % (2017: 1.17%) per annum and is receivable after one year from the reporting date.

	<i>Associates</i> KD	<i>Others</i> KD	2018 KD	<i>2017</i> KD
Consolidated statement of profit or loss				
Management fees	-	365,933	365,933	541,506
Interest income	25,835	-	25,835	32,073

Transactions with key management personnel

Key management personnel comprise of the Board of Directors and key member of the management having authority and responsibility for planning, directing and controlling the activities of the Group. The aggregate value of transactions and outstanding balances relating to key management personnel were as follows:

	<i>Transactions during the year</i>		<i>Outstanding balances</i>	
	2018 KD	<i>2017</i> KD	2018 KD	<i>2017</i> KD
<i>Compensation of key management personnel of the Group</i>				
Salaries and short-term benefits	253,164	258,254	40,773	77,100
Post-employment benefits	18,894	16,961	39,792	22,541
	272,058	275,215	80,565	99,641

15 FIDUCIARY ASSETS

The Group manages a number of investments and funds, some of which are managed in association with other professional fund managers. As at 31 December 2018, funds under management amounted to KD 20,906,640 (2017: KD 21,639,134).

These funds have no recourse to the general assets of the Group and the Group has no recourse to the assets of the funds. Accordingly, the assets of these funds are not included in the consolidated financial statements.

Income earned from fiduciary assets amounted to KD 409,512 (2017: KD 591,209).

16 COMMITMENTS

At the reporting date, the Group had capital commitments of KD 299,481 (2017: KD 461,162) towards certain investments.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

17 SEGMENT INFORMATION

The Group is primarily engaged in investment activities, the following tables present information regarding the Group's geographical segments:

	2018	2017
	KD	KD
Total revenue		
Kuwait and GCC	758,693	1,306,555
Europe	1,443,177	2,054,857
United States of America (USA)	449,502	265,028
	<hr/> 2,651,372 <hr/>	<hr/> 3,626,440 <hr/>

	2018	2017
	KD	KD
Non-current assets		
Kuwait and GCC	27,487,964	27,914,495
Europe	25,709,247	26,244,814
United States of America (USA)	529,502	344,065
	<hr/> 53,726,713 <hr/>	<hr/> 54,503,374 <hr/>

18 FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

18 FAIR VALUE MEASUREMENT (continued)

The Group's senior management determines the policies and procedures for recurring fair value measurement, such as unquoted equity investments and investment properties.

External valuers are involved for valuation of significant assets, such as investment properties and unquoted equity investments. Involvement of external valuers is decided upon annually by the senior management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The senior management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

The Group measures financial instruments such as investment in equity securities and mutual funds, and non-financial assets such as investment properties, at fair value at each reporting date. Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value, including the valuation methods, significant estimates and assumptions are disclosed below.

Management assessed that the fair value of the following financial assets and liabilities approximate their carrying amounts:

- Cash and cash equivalents
- Prepayments and other assets
- Other liabilities

The following methods and assumptions were used to estimate the fair values:

Listed investment in equity securities

Fair values of publicly traded equity securities are based on quoted market prices in an active market for identical assets without any adjustments. The Group classifies the fair value of these investments as Level 1 of the hierarchy.

Unlisted equity investments

The Group invests in private equity companies that are not quoted in an active market. Transactions in such investments do not occur on a regular basis. The Group uses a market-based valuation technique for these positions. The Group determines comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate trading multiple for each comparable company identified. The multiple is calculated by dividing the market value of the comparable company by its book value. The market value of a company is its share price multiplied by the number of outstanding shares. The book value is the net assets of a company. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. If management determines that market-based valuation technique are deemed unreflective and a significant underlying value of the investee is within its assets, management alternatively uses adjusted net assets value ("NAV"). The discounted multiple is applied to the corresponding capital measure of the investee company to measure the fair value. The Group classifies the fair value of these investments as Level 3.

Unlisted mutual funds

The Group invests in managed funds, including private equity funds, which are not quoted in an active market and which may be subject to restrictions on redemptions such as lock up periods. The management considers the valuation techniques and inputs used in valuing these funds as part of its due diligence prior to investing, to ensure they are reasonable and appropriate. Therefore, the NAV of these investee funds may be used as an input into measuring their fair value. In measuring this fair value, the NAV of the funds is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, and other specific factors of the investee fund and fund manager. In measuring fair value, consideration is also paid to any transactions in the shares of the investee fund. Depending on the nature and level of adjustments needed to the NAV and the level of trading in the investee fund, the Group classifies these funds as either Level 2 or Level 3.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

18 FAIR VALUE MEASUREMENT (continued)

Investment properties

The fair value of investment properties was assessed by accredited independent real estate experts with recognised and relevant professional qualification and with recent experience in the location and category of the investment properties being valued. The valuation models applied are consistent with the principles in IFRS 13 'Fair Value Measurement' and fair value is determined using a mix of the income capitalisation method and the market comparison approach considering the nature and usage of each property. Fair value using the income capitalisation method is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. Under the market comparison approach, fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square meter ('sqm'). The fair value of investment property is included within Level 3.

Fair value hierarchy

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

18.1 Financial instruments

The following tables provide the fair value measurement hierarchy of the Group's financial instruments measured at fair value:

		Fair value measurement using		
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
31 December 2018	Total KD	KD	KD	KD
Financial assets at FVTPL:				
Mutual fund	6,342,995	-	6,342,995	-
Private equity funds	3,726,127	-	-	3,726,127
Unquoted equity securities	1,336,577	-	-	1,336,577
Quoted equity securities	31,142	31,142	-	-
	11,436,841	31,142	6,342,995	5,062,704
Financial assets at FVOCI:				
Unquoted equity securities	1,130,639	-	-	1,130,639
Investment securities (at fair value)	12,567,480	31,142	6,342,995	6,193,343



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

18 FAIR VALUE MEASUREMENT (continued)

31 December 2017

Financial assets at FVTPL:

Quoted equity securities	15,820	15,820	-	-
Unquoted equity securities	1,568	-	1,568	-
	<u>17,388</u>	<u>15,820</u>	<u>1,568</u>	<u>-</u>

Available-for-sale financial assets:

Quoted equity securities	-	-	-	-
Unquoted equity securities	16,250	16,250	-	-
Unquoted funds	7,258,589	-	3,828,432	3,430,157
	<u>7,274,839</u>	<u>16,250</u>	<u>3,828,432</u>	<u>3,430,157</u>

Investment securities (at fair value)	<u>7,292,227</u>	<u>32,070</u>	<u>3,830,000</u>	<u>3,430,157</u>
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18.2 Non-financial assets

The following tables provide the fair value measurement hierarchy of the Group's non-financial assets:

	Fair value measurement using			
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Total KD	KD	KD	KD
31 December 2018				
Investment property	<u>151,650</u>	<u>-</u>	<u>-</u>	<u>151,650</u>
 31 December 2017				
Investment property	<u>150,875</u>	<u>-</u>	<u>-</u>	<u>150,875</u>

The following table shows a reconciliation of all movements in the fair value of items categorised within Level 3 between the beginning and the end of the reporting period:



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

18 FAIR VALUE MEASUREMENT (continued)**18.2 Non-financial assets (continued)**

2018	Financial Assets at FVOCI KD	Financial Assets at FVTPL KD	Total KD
As at 1 January 2018 (IFRS 9)	1,098,581	4,765,157	5,863,738
Re-measurement recognised in OCI	32,058	-	32,058
Re-measurement recognised in profit or loss	-	(72,738)	(72,738)
Purchases / sales (net)	-	370,285	370,285
As at 31 December 2018	1,130,639	5,062,704	6,193,343
2017	<i>Available for sale financial assets KD</i>	<i>Financial assets at FVTPL KD</i>	<i>Total KD</i>
As at 1 January 2017	4,754,202	-	4,754,202
Total gains (losses) recognised in profit or loss	(156,810)	-	(156,810)
Total gains (losses) recognised in OCI	(1,034,416)	-	(1,034,416)
Purchases / sales (net)	(132,819)	-	(132,819)
As at 31 December 2017	3,430,157	-	3,430,157

* Due to a change in accounting policy, available for sale financial assets measured at cost less impairment (in accordance with IAS 39) amounting to KD 2,985,255 were recognised in Level 3 for the first time. Refer to Note 2.2 for more information. Non-financial asset carried at fair value comprises of an investment property which is classified under Level 3 fair value hierarchy.

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December are as shown below:

Significant unobservable valuation inputs	Range	Sensitivity of the input to fair value
Discount for lack of marketability (DLOM)	20% - 30% (2017: 20% - 30%)	10% (2017: 10%) increase (decrease) in the discount would decrease (increase) the fair value by KD 126,877 (2017: KD 134,557)

The discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account when pricing the investments.

19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group's principal financial assets include financial assets at fair value through profit and loss, financial assets at fair value through other comprehensive income, cash and cash equivalents and other assets that derive directly from its operations. The Group's principal financial liabilities, comprise of other liabilities which arise from the Group's operations in normal course of the business. The Group also holds investments in equity and debt instruments.

The Group is exposed to credit risk, liquidity risk and market risk (including foreign currency risk, interest rate risk, equity price risk and operational risk). The Group's senior management is supported by a risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The risk committee provides assurance to the Group's senior management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

19.1 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily promissory notes issued to associates) and from its financing activities including deposits with banks and financial institutions, and other financial instruments. The Group's credit policy and exposure to credit risk is monitored on an ongoing basis. The Group seeks to avoid undue concentrations of risks with individuals or Group of customers in specific locations or business through diversification of operating activities.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed below:

	2018	2017
	KD	KD
Cash and cash equivalents	3,268,369	4,404,557
Other receivables	967,668	950,978
Promissory notes	1,777,807	2,707,048
	<hr/>	<hr/>
Gross maximum credit exposure	6,013,844	8,062,583
	<hr/> <hr/>	<hr/> <hr/>

Cash and cash equivalents

Credit risk from balances with banks and financial institutions is limited because the counterparties are reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies. Further, the principal amounts of deposits in local banks (including saving accounts and current accounts) are guaranteed by the Central Bank of Kuwait in accordance with Law No. 30 of 2008 Concerning Guarantee of Deposits at Local Banks in the State of Kuwait which came into effect on 3 November 2008.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

Other receivables and promissory notes

The Group does not determine ECLs on other receivables and promissory notes as the Group trades with credit



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

19.1 Credit risk (continued)

worthy counterparties and accordingly the Group's exposure has a low risk of default. Accordingly, the Company does not expect to incur any credit losses on these instruments.

Risk concentration of maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. There are no significant concentrations of credit risk.

19.2 Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Group on acceptable terms. To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on an ongoing basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The table below summarises the maturity profile of the Group's financial liabilities and capital commitments based on contractual undiscounted payments.

	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
31 December 2018				
Other liabilities	10,868	1,321,944	-	1,332,812
Capital commitments	72,807	170,543	56,131	299,481
	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
31 December 2017				
Other liabilities	1,840	1,612,227	-	1,614,067
Capital commitments	115,915	217,006	128,241	461,162

As at the reporting date, all financial liabilities of the Group shown in the statement of financial position are non-derivative and have a maturity of twelve months or less.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

19.1 Liquidity risk (continued)

19.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk such as equity price risk. Financial instruments affected by market risk include equity securities.

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 industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short-term changes in fair value.

19.3.1 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group incurs foreign currency risk on transactions denominated in a currency other than the KD. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries. The Group operates in the Kuwait, other Middle Eastern countries, Europe and the United States and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to Euro and US Dollar.

To mitigate the Group's exposure to foreign currency risk, management works on maintaining a balanced exposure of assets and liabilities by currency to minimise fluctuations in accordance with the Group's risks management policies.

The Group currently does not use financial derivatives to manage its exposure to currency risk. The Group manages its foreign currency risk based on the limits determined by management and a continuous assessment of the Group's open positions, current and expected exchange rate movements. The Group ensures that its net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the KD.

The Group has no material exposure to foreign currency exchange on monetary financial liabilities. The following tables set out the Group's exposure to foreign currency exchange rates on monetary financial assets at the reporting date:

	<i>Liabilities</i>		<i>Assets</i>	
	2018	2017	2018	2017
Currency	KD	<i>KD</i>	KD	<i>KD</i>
Euro	1,380	1,431	26,522,497	27,242,053
US Dollar (USD)	3,494	3,476	1,499,782	2,092,176

Further, the Group's exposure to foreign currency changes for all other currencies is not material to the consolidated financial statements.

Foreign exchange rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in Euro and USD exchange rates against the KD, with all other variables held constant. The impact on the Group's profit is due to changes in monetary assets and liabilities. The impact on the Group's equity is mainly due to the Group's net investments in associates.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

19 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

19.3 Market risk (continued)

19.3.1 Foreign currency risk (continued)

Currency	Change in exchange rate	2018		2017	
		Effect on profit or loss KD	Effect on equity KD	Effect on profit or loss KD	Effect on equity KD
Euro	5%	296,967	1,029,158	185,214	1,176,888
USD	5%	72,489	-	87,406	17,203

There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis. An equivalent decrease in each of the aforementioned currencies against the KD would have resulted in an equivalent but opposite impact.

19.3.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from the possibility that changes in interest rates will affect the value of the underlying financial instruments. The Group's exposure to the risk of changes in market interest rates is limited, as most of its interest-bearing assets and liabilities yield interest at commercial rates and reprice in the short term, no longer than twelve months.

19.3.3 Equity price risk

The Group's exposure to equity securities price risk arises from investments held by the Group and classified as at FVOCI or FVTPL (Note 8). The Group's listed and non-listed equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis.

As at the reporting date, the exposure to unlisted equity investments at fair value was KD 2,467,216. Sensitivity analyses of these investments have been provided in Note 18.

Only one of the Group's equity investments is publicly traded and is listed on the Kuwait Stock Exchange ("Boursa Kuwait").

19.4 Operational risk

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

20 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 review the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017. Capital comprises share capital, and other equity reserves (including non-controlling interests) and is stated at KD 56,033,290 as at 31 December 2018 (2017: KD 57,632,313).