Risk
Guided
Return

HAYAT INVEST

ANNUAL REPORT

2018

Contents

Chairman's Statement

Dear Shareholders,

By the grace of Almighty Allah, I am pleased to present to you the tenth annual report of the company.

As our company crosses this tenth milestone, we are pleased to note that total assets have increased substantially from KD 16.75 million as of end of 2009 to KD 68.39 million today. The corresponding increase in shareholders' equity has been from KD 16.47 million to KD 52.55 million.

Our investment portfolio today primarily consists of real estate projects in Saudi Arabia and Lebanon with a significant portion of assets invested in our flagship property, Al Nakhla Compound in Riyadh.

As you are aware, the economic environment in Saudi Arabia for the past few years has been challenging; this year too, was a continuation of the same trend. Despite this, we are pleased to note that this year, Al Nakhla compound's occupancy level increased from 63% to approximately 85% by year end. Unfortunately sales activity in our Jeddah project was below expectations. Our conservative estimate is that sales will remain muted in the coming year before picking up in FY2020 as the real estate market and general economic conditions improve.

As regards Lebanon, Prolonged conflict in the neighboring country and instability in domestic politics have hit economic confidence. Any sharp downturn in the property sector may risk further spillovers in general economy as real estate sector contributes 15% of Lebanon's economic output. Both property sales and number of new construction permits declined in the vicinity of 20% in 2018. The slump is mainly due to the overall wait-and-see attitude among investors because of the macro and political uncertainties Real estate buoyancy awaits prospects of stability and change in sentiments.

Equity markets broadly reflected the ongoing political and economic uncertainty in FY2018. Emerging Markets (as measured by the MSCI Emerging Markets Index) returned -16.6% for the year, underperforming the Developed Markets (MSCI World Index) which returned -11.2%. GCC markets on the other hand performed well, collectively returning +12.1% (MSCI GCC Index).

There is some concern that economic growth in certain major developed markets may have peaked and is likely to slow in the coming year. Add to this, rising political risks and the possible breakout of trade disputes and it is likely that markets next year will remain volatile. Our challenge then, in this environment, is to generate sufficient cash from our projects so that we are ready to invest as opportunities present themselves.

Our plan for the coming year is a continuation of the previous year's strategy of improving project operations while at the same time working towards optimal project exits. Any resulting cash flows will be used to build a portfolio that is diversified across geographies and asset classes.

I thank our stakeholders and employees for their continued efforts in building our company. I am particularly thankful to our shareholders for steadfastly reposing confidence in Hayat's management which has been successful in enhancing the shareholder's wealth. In future this will result in cash flow to shareholders through corporate actions.

Dr. Nabeel Al Mannae,

Chairman & CEO

Financial Highlights

	KWD									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Profit/loss (KD)	1,469,573	986,357	(1,430,234)	5,165,264	46,165,282	7,521,143	1,748,534	823,128	(17,964,803)	(6,704,965)
Total Operating Income (KD)	2,578,394	2,237,679	76,116	6,966,878	48,918,340	9,666,128	3,586,483	2,562,577	(16,002,483)	(5,211,196)
Total Assets (KD)	16,748,851	26,738,636	28,836,468	38,061,829	84,302,139	93,780,669	93,147,711	96,018,695	74,971,051	68,393,405
Total Liabilities (KD)	279,278	10,234,238	13,796,085	17,716,440	19,213,171	21,752,551	16,236,491	17,602,700	15,664,301	15,836,623
Total Equity (KD)	16,469,573	16,504,398	15,040,383	20,345,389	65,063,968	72,028,118	76,911,220	78,415,995	59,306,750	52,556,782
Earning/loss per Share (Fils)	9.80	6.58	(9.53)	34.44	307.77	50.14	11.66	5.49	(119.77)	(44.70)
Book Value per Share (fls)	109.8	110.0	100.3	135.6	433.8	480.2	512.7	522.8	395.4	350.4

Management Report

Introduction

Equity markets overall performed poorly in 2018 with most major markets returning losses in the early double digits. The MSCI World Index (which tracks developed markets) returned -11.2%, while the MSCI Emerging Markets Index returned -16.6% for the year.

Heightened political risks weighed on market sentiment, largely due to trade tensions between the United States and its major trading partners and the absence of an orderly plan for Brexit in the United Kingdom. On the economic front, while the US economy continued to show strength, growth in Europe and China appeared to be slowing. The US market remained relatively strong until the third quarter, reaching record high levels before giving up some of those gains in the final quarter. European markets also declined by more than 13% with the German benchmark in particular declining 18% during the year.

Emerging markets overall, fared worse than developed markets due to pressures from a range of factors including trade tensions and currency weakness as a result of strong dollar. China's benchmark fell 25% on visible signs of a slowdown in trade, causing the MSCI Asia Pacific Index to decline 15.6% for the year.

GCC markets outperformed their global peers with the MSCI GCC Index returning 12.1%. An improved outlook for oil prices as well as the potential reclassification of some regional markets by FTSE and MSCI provided a boost to indices. Qatar was the best performing market with returns of 20.8%, followed by Abu Dhabi and Saudi Arabia with returns of 11.7% and 8.3%, respectively.

Kuwait

GDP growth for 2018 rebounded to +2.9% from -3.5% (contraction) in the previous year, largely due to a recovery in oil output. Growth in the oil and non-oil economy for 2018 is estimated to be 3% and 2.8% respectively, versus -7.2% (contraction) and 2.2% respectively, in the previous year.

The picture for 2019 is one of continued growth, but at a slower pace compared to the previous year. Overall GDP growth is set to ease to 2.2% in the coming year due to slower growth in oil GDP reflecting changes in OPEC strategy. Growth in the oil and non-oil economy for 2019 is forecasted at 1.5% and 3% respectively.

Projects were awarded at a modest pace in 2018, due to delays in the implementation of megaprojects such as the KAPP Al-Zour North IWPP and the KIPIC petrochemical complex. Further setbacks came from cancelled roadworks that were scheduled to take place in the 1st half of 2018. Project awards are expected to pick up pace in the coming year given increasing pressure from parliament and the State Audit Bureau arising from the setbacks, and the critical role key that these awards play in Kuwait's five-year development plan. The bulk of awards is expected to be in the power and water, oil and gas, and construction sectors, and will include rescheduled projects from 2018.

Both Fiscal and Monetary policy remain broadly supportive to growth. Recent data indicates that lending to both businesses and households has picked up which points to signs that private investment may be recovering. Credit growth for FY2018 is expected to range between 4% and 5% and that pace is expected to be maintained next year thanks to increased project awards. The central bank's relaxation of lending restrictions in late 2018 should also boost household borrowing in the coming year.

Inflation for FY2018 is estimated at 0.6% compared to 1.5% in the previous year. Lower rents due to the ongoing softness in the housing market, as well as low rates of food inflation were factors behind the deceleration. Inflation in the coming year is expected to rise to 2% as deflationary trends in housing and food prices ease.

Kuwait Stock Exchange

Kuwait's All Share Index returned 5.2% in 2018. The benchmark remained under pressure during the first half of the year but gained in the second half led primarily by MSCI's announcement to consider upgrading Kuwait to the Emerging Markets category next year.

In terms of sector performance, the Basic Materials index topped the yearly chart with a return of 26%. The biggest stock in the sector, Boubyan Petrochemicals saw a 45% gain followed Al Kout for Industrial Projects which gained 40%. The Consumer Goods index witnessed the steepest decline of 25.4% during the year followed by Technology and Consumer Services indices with declines of 19% and 15.7%, respectively. The Real Estate sector remained weak, in line with most of the other GCC markets, with the benchmark declining 11.8% during the year.

End of year market capitalization of the KSE for 2018 increased 2.7% from the previous year to KWD 28.7 billion. Trading activity on the exchange declined in 2018 after showing significant growth during the previous year. Total volume of shares traded on the exchange more than halved to 21.7 Bn shares during 2018 as compared to 50.6 Bn shares during 2017. Total traded value for 2018 also declined - 27.8% during 2018 to KWD 4.1 Bn.

GCC & MENA

GCC markets saw high volatility during the year, in line with other global markets. Market performance during the year was largely swayed by regional geopolitics in addition to oil price movements. Performance across markets in the region was varied with 20.8% returns seen for Qatar, followed by Abu Dhabi and Saudi Arabia with returns of 11.7% and 8.3%, respectively. Kuwait was next on the list with a yearly return of 5.2% while Dubai and MSM recorded double digit declines of 24.9% and 15.2%, respectively. MSCI's announcement that they would upgrade Saudi Arabia to Emerging Market status in 2019 and conduct a review whether to do the same for Kuwait, provided a boost to both markets. During the year, Kuwait got a further boost when FTSE upgraded the country and added it to its Emerging Market index in two stages.

In terms of sector performance, the banking sector was the best performer for the year led by strong growth in earnings reported by most major banks. The top 15 banks in the GCC by market cap added

USD 74 Bn in aggregate market cap during the year equivalent to almost one-third of the market cap for these banks at the end of 2017. The Energy, Materials and Telecommunication sectors also saw strong gains for the year while Real Estate, Utilities and Transportation were the weakest performers.

Global Outlook

Global growth for FY2018 was projected to remain steady at 3.7 per cent in continuation from the previous year (IMF forecast, Oct-18). At the same time, growth has become less balanced and may have peaked in some major economies. Downside risks to global growth have risen in the past six months and the potential for upside surprises has receded. Recently introduced restrictive trade policy measures have already resulted in marked changes to trade flows and adversely affected business sentiment and investment plans. There is rising uncertainty about possible disruptions to supply chains and the risk that restrictions may intensify.

Sizeable fiscal easing has helped boost near-term growth in the United States and a number of other economies, including Korea. Downside surprises to growth in Europe have lasted longer than expected, in part reflecting headwinds from weaker external demand. Developments in the major emerging-market economies are also becoming more dispersed. GDP growth held up in China and India in the first half of 2018 but slowed in a number of other economies, including Brazil. More recently towards the end of the year, signs of softer domestic demand have started to appear in Chinese monthly data.

Global growth for both 2018 and 2019 is currently estimated at 3.7 percent, revised lower by 0.2 percentage points from IMF estimates in April 2018. Growth looks set to soften over the medium term with global financial conditions expected to tighten as monetary policy normalizes. Restrictive trade measures implemented since April are expected to weigh on activity in 2019 and beyond. US fiscal policy is expected to start subtracting from growth momentum in 2020 and growth in China too, is expected to slow reflecting weaker credit growth and rising trade barriers. Across emerging markets and developing economies, medium-term prospects are mixed. Projections remain favorable for emerging Asia and emerging Europe, excluding Turkey, but are subdued for commodity exporters in Latin America, the Middle East, and sub-Saharan Africa.

Developed Markets

United States

U.S. growth has gradually accelerated throughout FY2018, thanks to resurgent consumer demand and increased business capital spending. Through a mixture of tax incentives and necessity, private capital spending began to speed up in the second half of 2016 and continued to exhibit impressive levels of growth through the first half of 2018. The Federal Reserve hiked interest rates four times during the year to 2.50 per cent with last rate hike of 0.25% coming in December 2018.

Growth likely peaked at 2.9 percent in 2018 supported by fiscal stimulus after eight consecutive years of expansion before softening to 2.5 percent in 2019 due to the recently introduced trade measures. Growth is projected to further decline to 1.8 percent in 2020 as the fiscal stimulus begins to unwind.

Strong domestic demand is expected to push the economy above full employment and increase imports and the current account deficit. The Fed estimates that the unemployment rate will fall to 3.7 percent by the end of 2018, and to 3.5 percent by the end of 2019.

Eurozone

The first half of 2018 has been marked by a notable slowdown in economic activity in the euro-area, exacerbated by political developments that have threatened to destabilize the Eurozone once again. Growth for 2018 was projected at 2.0 percent and is forecast to gradually slow further to 1.9 percent in 2019. Healthy consumer spending and job creation amid supportive monetary policy is expected to continue to provide strong aggregate demand, though at a moderating pace.

Short-term profiles of country-specific growth rates vary but have been negatively affected across the board by softer external demand. In France, growth is expected to moderate to 1.6 percent in 2018 and 2019. In Germany, growth forecasts have been lowered to 1.9 percent in 2018 and 2019 because of a slowdown in exports and industrial production. Italy's growth forecast is estimated at 1.2 percent for 2018 and 1 percent in 2019, amid uncertainty regarding the new government's policy agenda. In Spain, growth is expected to be 2.7 percent in 2018 and 2.2 percent in 2019. Medium-term growth in the euro area, projected at about 1.4 percent, is expected to be constrained by slow productivity growth and unfavorable demographics.

United Kingdom

Growth is projected to slow to 1.4 percent in 2018 and 1.5 percent in 2019, driven by weak growth in the first quarter of the year, partly due to weather-related factors. The medium-term growth forecast remains at 1.6 percent, weighed down by the anticipated higher barriers to trade following Brexit.

Japan

Japan's growth is projected to moderate to 1.1 percent in 2018 from a strong, above-trend outturn of 1.7 percent in 2017, before softening to 0.9 percent in 2019. The downward revision is largely due to the contraction observed in the first quarter of 2018, and given the uptick in growth and domestic demand in the second quarter of 2018; this is likely to represent a temporary dip rather than the beginning of a turn in the cycle. Japan's medium-term prospects are impeded by unfavorable demographics and a trend decline in the labor force.

Emerging Markets

China

In China, growth is projected to moderate from 6.9 percent in 2017 to 6.6 percent in 2018 and 6.2 percent in 2019, reflecting slowing external demand growth and necessary financial regulatory tightening. The negative effects of recent tariff actions are assumed to be partially offset by policy stimulus.

Infrastructure investment and credit growth in China have both moderated and the working-age population is declining. Headwinds from trade tensions have so far been modest, with the currency depreciation helping to counteract the impact of higher tariffs, but could intensify. Recent policy measures have improved financial conditions, and scope remains to expand fiscal spending if required. Such measures could however delay the necessary deleveraging of the corporate sector and aggravate risks to financial stability.

Over the medium term, growth is expected to gradually slow to 5.6 percent as the economy continues to make the transition to a more sustainable growth path with continued financial de-risking and environmental controls.

India

India's growth is expected to increase to 7.3 percent in 2018 and 7.4 percent in 2019, up from 6.7 percent in 2017. This acceleration reflects a rebound from transitory and structural shocks including the currency exchange initiative and implementation of the national Goods and Services Tax along with strengthening investment and robust private consumption. India's medium-term growth prospects remain strong at 7.75 percent, benefiting from ongoing structural reforms.

ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand, Vietnam)

Growth is expected to be 5.3 percent in 2018, before softening to 5.2 percent in 2019. The 0.2 percentage point downward revision to the 2019 growth forecast reflects largely the economic costs of recent trade measures.

Saudi Arabia

In Saudi Arabia, following a 0.9 percent contraction in 2017, output is projected to expand by 2.2 percent in 2018 and 2.4 percent in 2019, driven by a pickup in non-oil economic activity and a projected increase in crude oil production in line with the revised OPEC Plus agreement.

GDP figures for 2Q 2018, showed that the economy expanded 1.6% y-o-y, marking the fastest pace of growth in the last six quarters, driven by improvements in the non-oil sector led by government services, financial services and manufacturing segments. In addition, higher oil prices, due to geo-political concerns and tight supply expectations, further aided the economic expansion. However, muted capital spending by the government continued to impact Saudi builders, as reflected by contraction in the construction sector. Further, consumer spending on nonessential items remained weak, due to the implementation of VAT and the exodus of expats, due to increased dependent fees.

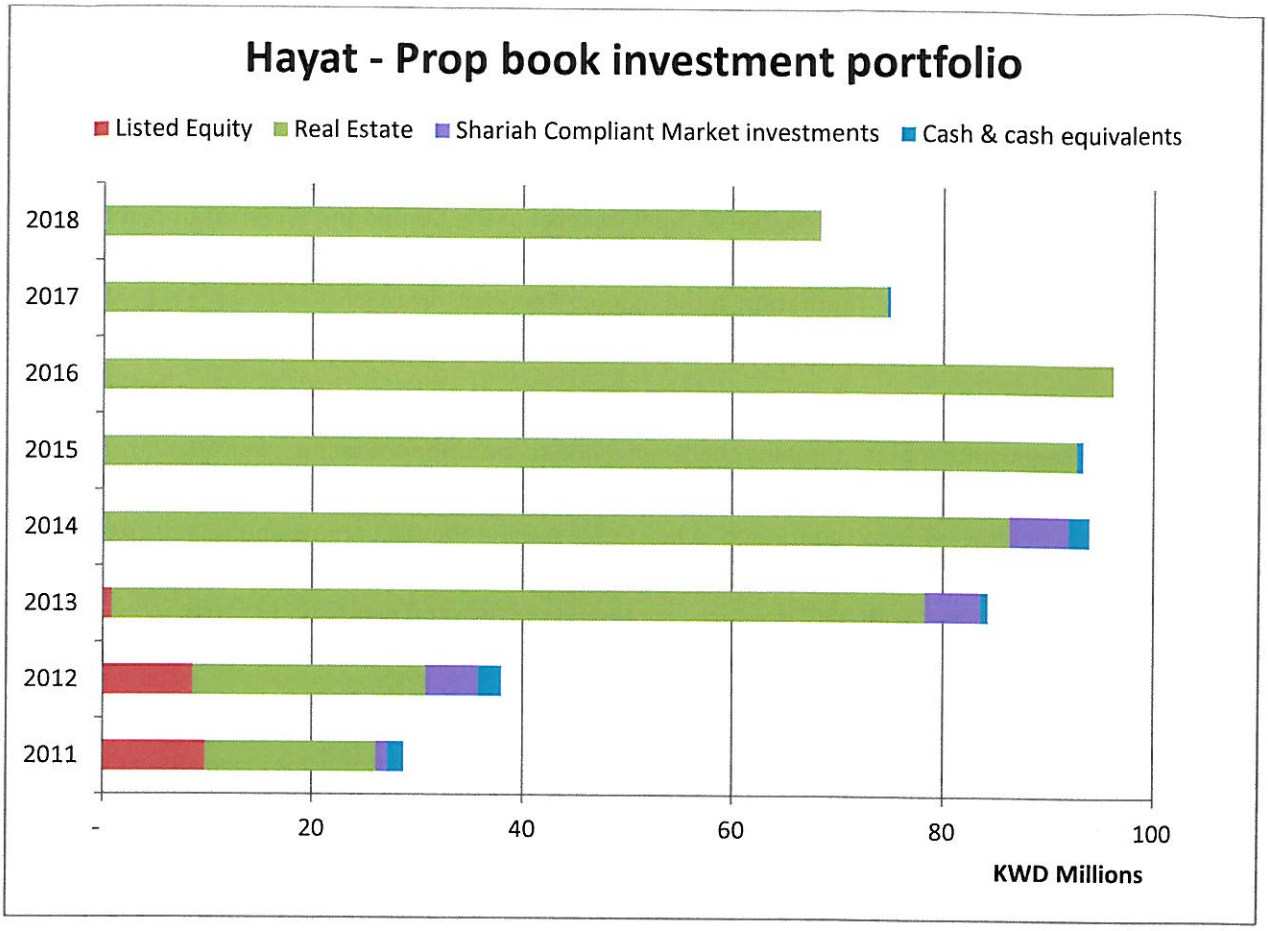
Moody's affirmed Saudi Arabia's rating at 'A1' (Stable outlook) in October 2018 and raised the Kingdom's 2018 and 2019 GDP forecast to 2.5% and 2.7%, respectively citing higher oil production and higher oil prices.

Prospects for 2019

For the coming year, we see a continuation of many of the major the trends seen in 2018. Trade tensions appear likely to persist and slowing growth momentum in Europe, Japan and China looks unlikely to reverse in the short to medium term. The UK is set to leave the European Union by the end of March 2019 and it remains to be seen to what extent a disorderly exit will impact financial markets. Moreover, the current US expansion (since June 2009) is nearly within reach of being the longest recorded economic expansion in the country's history, and no expansion can last forever. On a positive note, following recent market declines, valuations particularly in Europe and parts of Asia look far more reasonable than they did at the beginning of 2018. It is likely that the coming year will present good opportunities to enter markets for the patient, long term investor.

Hayat in 2018

Sales for our projects in both Saudi Arabia and Lebanon were below expectations on account of continued market weakness in those countries. However, we made strong operational gains at our flagship investment property – Al Nakhla Compound, where occupancy increased from 63% at the beginning of the year to approximately 85% at year end. Strategic upgrades were made to the compound which helped us better position the property in the market and retain a high quality tenant mix. The Compound's tenant roster continues to be of outstanding quality comprising well-known companies with long term contracts in the Kingdom.



Listed Equity

Our existing investments are heavily skewed towards real estate projects. We foresee cash flows arising from these real estate projects from expected rentals and sales. These cash flows will be used to develop a balanced and diversified portfolio with the appropriate combination of different assets classes.

Real Estate: Status of Existing Projects

Hayat Real Estate Investment Company LLC

Al Nakhla Residential Compound is a high end premium residential compound complex in Riyadh, Saudi Arabia. The compound spans an area of 259,796 square meters and is situated on Khalid Bin Al Waleed road next to SABIC's head office. Business Gate project and several leading universities and research centers such as Riyadh University, Princess Noura Bint Abdulrahman University and King Abdullah Center for Petrochemical Studies are in close proximity to the compound. The compound operates at high level of occupancy and with fantastic amenities and beautiful landscaping, is home to a lively community.

Progress during 2018:

Despite difficult market conditions, the occupancy Level of the Compound (in terms of number of units) increased from 63% at the beginning of the year to approximately 85% by year end. The Compound continues to enjoy a strong reputation in the market. Feedback from existing tenants is positive and the Compound won an award for leading residential resort (from World Travel Awards) for the second year running.

The Saudi Real Estate market remains challenging due to a number of factors. In FY2017, real estate prices fell across all categories due to a weakening economy, changing fiscal and economic reforms. In FY2018, the downward trend continued. A key factor behind the fall in rents and sale prices was the levy on expat dependents. Expats repatriated their families and moved to smaller spaces, resulting in a shift towards smaller units. Saudi REIT issuances continued through the first half of FY2018 with prices fluctuating dramatically during the year, trading at a premium at launch to trading at a discount by the year end, for a number of REITs.

Multiple exit strategies for the project are being explored. Since the project is bigger than the normal residential compounds, exit strategy needs to be worked out patiently. For the present, we have focused on improving operations at the Compound while working towards the right exit opportunity.

Hayat Luxury Villas Company LLC

Hayat Residential villa project is situated near the coast of northern Jeddah, Saudi Arabia. The project occupies an area of 32,209 square meters and is in close vicinity to both the Red Sea Mall (one of the largest malls in Jeddah) and King Abdul Aziz International airport.

Progress during 2018:

Villa sales during the year were below expectations. As of the year end, a total of 35 units have been sold with 61 units remaining to be sold. Due to present weak market conditions, we expect the majority of future sales to take place in FY2020. Any improvement in the general economy in the coming year should aid our sales and marketing efforts.

Baabda

Project Description: Luxury multifamily residential apartment building in Baabda, Lebanon

Progress during 2018:

Our multifamily residential apartment building in Baabda, Lebanon is fully constructed on a core and shell basis. In 2016, given market conditions, we changed our exit strategy from selling the project on a core and shell basis to selling as fully fitted-out apartments. Construction activity to finish the units was completed in 2017. With construction now fully complete, the project is now in the marketing phase. Due to weak economic conditions in Lebanon in 2018, no units were sold during the year. We expect sales to remain muted in the coming year before picking up in FY2020.

Return on Investments

- **We made a loss of KWD 6.7 million during the year as compared to a loss of KWD 17.96 million in the previous year.** The loss for the year was primarily due to a lower valuation of Al Nakhla Compound in Riyadh, Saudi Arabia stemming from generally weak conditions in the Saudi Real estate market. It was valued at lower of the two valuations obtained for this purpose.
- **There was a revaluation loss of KD 16.**04 million, half of which (KD 8.02 million) was apportioned to Hayat Invest. There was also a revaluation loss of KD 0.308 million in Hayat Residence Baabda. Additionally income for Al Nakhla for FY2018 was recognized based on an average occupancy rate of 62%. We expect income to stabilize at an occupancy rate of 90% in future. If we take aside the valuation loss for Al Nakhla and Baabda, Profit for Hayat Invest for the year 2018 comes to KD 1.593 million.

- Net investment income for the year arose primarily from gains on foreign exchange that were partially offset by a decrease in the fair value of investment properties.

- Fee and commissions income remain an insignificant income source (relative to our other operations) given low levels of client assets and the closure of Hayat India Equity Fund Ltd.

Consolidated Statement of Comprehensive Income	FY2018	FY2017
Net investment income	132,465	(447,946)
Share of profit of equity-accounted investee	(5,679,513)	(15,585,387)
Fee and commission income	2,788	30,850
Total Operating income	**(5,211,196)**	**(16,002,483)**
Total operating expenses	**(1,493,769)**	**(1,962,320)**

Operating profit before provision for impairment	**(6,704,965)**	**(17,964,803)**
Reversal / (Provision) for impairment	-	-
Net profit	**(6,704,965)**	**(17,964,803)**
Total comprehensive income	**(6,735,100)**	**(19,109,245)**

- Total assets of the Company declined 8.8% due to a decline in the value of our share of the net assets of Hayat Real Estate Investment Company L.L.C.

Consolidated Statement of Financial Position

Consolidated Statement of Financial Position	FY2018	FY2017
Cash and bank balances	67,814	348,901
Available for sale investments	83,913	90,134
Investment properties	4,114,161	4,408,826
Investment in equity-accounted investees	58,276,999	63,644,091
Other assets	5,850,518	6,479,099
Property held for sale	-	-
Total assets	**68,393,405**	**74,971,051**
Islamic finance payables	14,620,785	14,237,693
Other liabilities	1,215,838	1,426,608
Total liabilities	**15,836,623**	**15,664,301**

Total equity	**52,556,782**	**59,306,750**
Total liabilities and equity	**68,393,405**	**74,971,051**

Hayat's Financial Product and Services

Hayat provides its clients with customized, Shariah compliant investment solutions. Our offerings are tailor made to address the individual risk-return profile of our client and towards this aim, we actively seek out and pursue Shariah compliant investment opportunities across asset classes and geographies.

Portfolio & Wealth Management

Hayat offers customized wealth management services to clients in the form of discretionary and non-discretionary portfolio management services. Our portfolio management team develops an asset allocation plan, unique to each client and tailored to that client's specific investment needs and objectives. Special emphasis is placed on managing investment risks. Risk is first minimized through appropriate asset allocation and then further reduced through global diversification. Client information is updated at regular frequency and clients are provided with regular portfolio performance reviews and analysis.

At present, Hayat has a limited number of discretionary and/or non-discretionary clients. However, our plan for the coming year(s) includes expanding our clientele base for both listed equity and real estate investments. Our current client real estate investment portfolio currently focuses on the Indian and European real estate markets. For the year ahead, we are considering new opportunities for our clients in developed real estate markets, particularly in European real estate.

Risk Management at Hayat

Risk reduction is a pillar of our investment decision making process. As an investment company, we are exposed to a number of diverse risks. For our investment portfolios, we monitor market risk parameters continuously with daily, weekly, monthly and quarterly reports guiding the investment managers to effectively control risks. Our quarterly reports go into more detail and measure performance on a risk adjusted basis. To control risk in our various non-listed investments (mostly real estate), the progress of every project is reviewed at every quarter. The investment risk reports review the ongoing progress of each project comparing actual percentage of completion with the planned time schedule to control delays and slippages. As a result, financial models are updated with the latest market inputs to analyze their impact on project IRR. A sensitivity analysis is also prepared in order to assess the impact on project IRR due to adverse movement in key variables. Furthermore, our projects are closely monitored through regular site visits and exchange of communication with developers and contractors.

In 2011, we established a separate Risk Department under the supervision of a dedicated Risk Manager. At a strategic level, the Risk Department designs processes, policies and procedures to identify and manage various types of risks relevant to the company. The Risk Manager reports to the Risk Management Committee (RMC) and is responsible for identifying, assessing and suggesting control measures for both the enterprise and investment portfolio.

Operating risk at Hayat is addressed at systems level. Our securities back office is system-linked with the accounting function and therefore this aspect of operating risk is controlled. Additionally, Hayat has prepared procedure manuals for its critical operations and adherence with these minimizes operating risks.

Internal Audit at Hayat is outsourced to a reputed firm who conducts audit on quarterly basis and give its findings on every aspect of the business operations. This gives us additional comfort as feedback from audit reports not only confirm the robustness of existing risk management system but also helps in further enhancing its scope.

Human Resources

Hayat believes that it's that its employees are its most valuable asset. Our team of talented and seasoned professionals contributes a pivotal role in realizing the company's strategic goals and objectives.

To maintain and further enhance our competitive advantage over peers, Hayat recognizes the need to keep our human resources abreast with the today's challenging financial environment. To this end, Hayat believes in continuously improving job skills through various short term training courses. The combination of offering right compensation package, amicable and challenging work environment, improving job skills and an opportunity for growth have created a richly experienced and dynamic team that will ensure that the company achieves its goals.

Our staff comprises bright natives and skilled expatriates. This is spanned across various departments e.g. Investments, Operations, HR, legal, Finance & Administration, Compliance and Risk Management. Our employees have a credential basket of experience and qualification such as CFA, FRM, MBA and various other accredited qualifications.

Corporate Governance

Hayat's Board of directors believes that ensuring effective corporate governance is a continuous process and a critical factor in achieving business success. Hayat has a strong corporate governance framework and is fully compliant with the requirements of the Capital Markets Authority (CMA).

At present, our board comprises six directors, of which the majority (five) is non-executive (including one independent director). Three of them represent institutional shareholders. The presence of large institutional shareholders in itself ensures that corporate governance practices, prevalent at the level of institutions also translate into corporate practices of Hayat.

The board has three sub-committees: The Audit Committee, The Nomination & Remuneration Committee and the Risk Committee. These committees are constituted in line with CMA corporate governance guidelines and include independent members. Our internal audit function is outsourced to an international audit firm with expertise in internal audit and risk management.

When deciding on strategic and important issues, Hayat operates through discussions within various committees namely Executive Management Committee, Credit Committee and Asset Management Committee.

Hayat places significant emphasis on internal compliance procedures. The Financial Statements of the company are prepared in compliance with the guidelines of the International Accounting Standards and other statutory regulations. Reports to CBK and CMA are sent on fortnightly, monthly, quarterly and yearly basis. Hayat has been prompt and diligent in sending these reports without attracting any sanction.

Our Plan for FY2019

Given the current weak market conditions in Saudi Arabia and Lebanon, we prefer to be conservative with sales expectations for the coming year. We expect that both market conditions and sales will improve in FY2020 as demand and supply, gradually rebalance in both markets.

Our focus for all our projects during the coming year will be on improving project operations while at the same time, searching for optimal project exits. Any cash flows received in the coming year will be partially utilized towards reducing debt and the balance will be redeployed towards a portfolio that is diversified across asset classes and geography. One of our major goals is to rectify the existing regional and asset concentration in our portfolio. We plan to focus on three asset classes: Listed equity, private equity and real estate. Different geographies will be selected based on anticipated risk and return opportunities. Asset class weights will be subject to the availability of investment opportunities and may therefore diverge from any weights that we target for these asset classes.

We expect markets to be volatile in the coming year, with opportunities likely to present themselves for patient long term investors. Whatever your investment needs, Hayat is at your service. We thank you for investing with us.

10/04/2019

Final report of the Sharia Supervisory Committee
For the financial period of 01/01/2018 to 31/12/2018

To The Shareholders of Hayat Investment Company
Allah's peace, mercy and blessings be upon you

In accordance with the powers delegated to us by the members of the General Assembly of **Hayat Investment Company** and under the Company's Articles of Association and the relevant regulatory directives, the Sharia Supervisory Committee submits its final report for the period from 01/01/2018 to 31/12/2018 It includes Three items as follows:

First: The work of the Sharia Supervisory Committee

The Sharia Supervisory Committee carried out its work, which included examining the investment structures, contract forms, products, policies and procedures either directly or in coordination with the internal Sharia audit department in order to obtain all the information and explanations that it considered necessary to provide sufficient evidence and give reasonable assurance that the company did not violate the provisions of Islamic law in the light of the resolutions of the Sharia Supervisory Committee and the Sharia standards adopted by the Company and the decisions of the relevant regulatory bodies.

Second: Decisions of the Sharia Supervisory Committee

The Sharia Supervisory Committee of the Company responded to all the company's inquiries and issued 20 decisions.

Capital: 2.000.000 KD
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Three: The final opinion:

In our opinion, after examining all the clarifications and assurances we have obtained, we confirm that:

1. The contracts, operations and transactions concluded by the Company during the period from 01/01/2018 to 31/12/2018 were made entirely in accordance with the provisions of the Islamic Sharia.
2. The responsibility to pay zakat falls on the shareholders.

Head of the Sharia
Supervisory Committee
Prof. Dr. Abdul Aziz Al Qassar

Member of the Sharia
Supervisory Committee
D. Issa Zaki Issa

Member of the Sharia
Supervisory Committee
D. Ali Ibrahim Al Rashed

Capital: 2.000.000 KD
Al Mirqqab – Al Sour Street – Jassem Al Asfour Tower – 7 th Floor
Tel: +965 22960555 Fax: +965 22960556
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Date: 26/03/2019

To: The General Assembly: Hayat Investment Company

May Allah's Peace, Mercy and Blessings be upon you

External Sharia Auditor's Report for the Financial Period from (01/01/2018 – 31/12/2018)

Scope of Work:
In accordance with the relationship contract signed with you, the scope of work is determined by the extent to which Hayat Investment Company is committed to the execution of contracts and transactions in accordance with the decisions of the Sharia Board as stated in the resolutions, opinions and guidelines.

Responsibility of the Company:
The Company's Executive Management shall be responsible for the compliance with the implementation of contracts and transactions in accordance with the Principles of Islamic Sharia, as stated by the Company's Sharia Board.

The External Sharia Audit Company's Responsibility for the Financial Statements:
Our responsibility is limited to expressing an independent opinion on the extent to which the company's transactions, activities and securities are in conformity with the decisions of the Sharia Board after examining and perusing contracts and operations, and coordinating with the entities responsible for conducting operations by all communication methods including field visits, correspondence etc., according to the schedule prepared in this regard.
We have perused the report of the Sharia Supervisory Board, and we have also perused everything necessary to obtain all the information, clarifications, acknowledgments and audit visits that we deem necessary and which were as follows: The annual visit to the company was made on 20/03/2019, and the visit resulted in providing us with adequate evidences to give a reasonable confirmation as to the extent to which the company's transactions, activities and securities are in compliance with the decisions of the Company's Sharia Board, and its implementation of the contracts and transactions approved by the board. Hence, we believe that the audit conducted by us provide an appropriate basis for expressing our opinion.

Opinion:
All the contracts and operations that have been examined and perused, and the rules of reference for those contracts and operations are consistent with the decisions of the Company's Sharia Board.

Dhari Laith Al-Atiqi
Head of Sharia Sector

Tel. 00965 22 960 565
Fax. 00965 2241 35 69
P.O. Box. 957 Sura
Code. 45710
State of Kuwait

Hayat Invest Company K.S.C. (Closed) and subsidiaries
State of Kuwait

HAYAT INVEST

Consolidated financial statements and independent auditor's report for the year ended 31 December 2018

Contents

KPMG

KPMG Safi Al-Mutawa & Partners
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Tel.: +965 2228 7000
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Independent auditor's report

The Shareholders
Hayat Invest Company K.S.C. (Closed)
State of Kuwait

Opinion

We have audited the consolidated financial statements of Hayat Invest Company K.S.C. (Closed) ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 ("IFRS"), as adopted for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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 International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("the 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.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is the Board of Directors' report included in the Group's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

KPMG

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 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 IFRS, as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' 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 ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, 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.

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Companies Law No. 1 of 2016, as amended, and its Executive Regulations and the Company's Memorandum of incorporation and Articles of Association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the Board of Directors' report agrees with the books of accounts. We have not become aware of any violations of the provisions of the Companies Law No.1 of 2016, as amended, and its Executive Regulations, or of the Company's Memorandum of incorporation and Articles of Association during the year ended 31 December 2018 that might have had a material effect on the business of the Company or on its consolidated financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, or of Law No. 7 of 2010, as amended, 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 Company or on its consolidated financial position.

Dr. Rasheed M. Al-Qenae
License No. 130 "A"
KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Kuwait: 6 March 2019

Consolidated statement of financial position
as at 31 December 2018

	Note	2018 KD	2017 KD
Assets			
Cash and cash equivalents	*4*	67,814	348,901
Available for sale investments		-	90,134
Financial assets at fair value through other comprehensive income		83,913	-
Investment properties	*5*	4,114,161	4,408,826
Investment in equity-accounted investees	*6*	58,276,999	63,644,091
Other assets	*7*	5,850,518	6,479,099
Total assets		68,393,405	74,971,051
Liabilities			
Islamic finance payables	*8*	14,620,785	14,237,693
Other liabilities	*9*	1,215,838	1,426,608
Total liabilities		15,836,623	15,664,301
Equity			
Share capital	*10*	15,000,000	15,000,000
Statutory reserve	*10*	6,494,622	6,494,622
Voluntary reserve	*10*	6,494,622	6,494,622
Translation reserve		5,183,724	5,222,506
Cumulative changes in fair value		(6,221)	-
Retained earnings		19,390,035	26,095,000
Total equity		52,556,782	59,306,750
Total liabilities and equity		68,393,405	74,971,051

The accompanying notes form an integral part of these consolidated financial statements.

Dr. Nabeel A. Al-Mannae
Chairman & CEO

Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 December 2018

	Note	2018 KD	2017 KD
Operating income			
Net investment income / (loss)	*12*	137,548	(447,946)
Fee and commission income	*16*	2,788	30,850
Share of loss of equity-accounted investees	*6*	(5,679,513)	(15,585,387)
Reclassification of foreign currency translation difference on liquidation of a subsidiary	*14*	327,981	-
Total operating loss		(5,211,196)	(16,002,483)
Operating expenses and other charges			
Staff costs		(508,447)	(624,762)
Depreciation and amortization		(1,899)	(4,511)
Finance cost		(811,256)	(853,625)
Other expenses	*13*	(172,167)	(479,422)
Total operating expenses and other charges		(1,493,769)	(1,962,320)
Loss before Board of Directors' remuneration, contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS") and Zakat		(6,704,965)	(17,964,803)
Board of Directors' remuneration		-	-
KFAS		-	-
Zakat		-	-
Net loss for the year		(6,704,965)	(17,964,803)
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss:			
Reclassification of foreign currency translation difference on liquidation of a subsidiary		(327,981)	-
Foreign currency translation differences		289,199	(1,144,442)
		(38,782)	(1,144,442)
Items that will not be reclassified subsequently to profit or loss:			
Cumulative changes in fair values		8,627	-
		8,627	-
Other comprehensive loss for the year		(30,155)	(1,144,442)
Total comprehensive loss for the year		(6,735,120)	(19,109,245)
Basic and diluted loss per share (fils)	*15*	(44.70)	(119.77)

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2018

	Share capital KD	Statutory reserve KD	Voluntary reserve KD	Translation reserve KD	Cumulative changes in fair value KD	Retained earnings KD	Total KD
Balance at 1 January 2017	15,000,000	6,494,622	6,494,622	6,366,948	-	44,059,803	78,415,995
Comprehensive loss for the year							
Net loss for the year	-	-	-	-	-	(17,964,803)	(17,964,803)
Foreign currency translation differences	-	-	-	(1,144,442)	-	-	(1,144,442)
Total comprehensive loss for the year	-	-	-	(1,144,442)	-	(17,964,803)	(19,109,245)
Balance at 31 December 2017	15,000,000	6,494,622	6,494,622	5,222,506	-	26,095,000	59,306,750
Balance at 1 January 2018	15,000,000	6,494,622	6,494,622	5,222,506	-	26,095,000	59,306,750
Transition adjustment on adoption of IFRS 9 at 1 January 2018 (note 2(e))	-	-	-	-	(14,848)	-	(14,848)
Balance as at 1 January 2018 after IFRS 9 transition	15,000,000	6,494,622	6,494,622	5,222,506	(14,848)	26,095,000	59,291,902
Comprehensive loss for the year							
Net loss for the year	-	-	-	-	-	(6,704,965)	(6,704,965)
Cumulative changes in fair values	-	-	-	-	8,627	-	8,627
Foreign currency translation differences	-	-	-	(38,782)	-	-	(38,782)
Total comprehensive loss for the year	-	-	-	(38,782)	8,627	(6,704,965)	(6,735,120)
Balance at 31 December 2018	15,000,000	6,494,622	6,494,622	5,183,724	(6,221)	19,390,035	52,556,782

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2018

	Note	2018 KD	2017 KD
Cash flows from operating activities			
Net loss for the year		(6,704,965)	(17,964,803)
Adjustments for:			
Depreciation and amortization		1,899	4,511
Share of loss of equity-accounted investees	*6*	5,679,513	15,585,387
Reclassification of foreign currency translation differences on liquidation of subsidiary		(327,981)	-
Change in fair value of investment properties	*12*	307,990	578,785
Finance cost		811,256	853,625
Provision for employees' end of service indemnity		58,343	92,797
		(173,945)	(849,698)
Changes in:			
Other assets		626,682	41,270
Other liabilities		(292,335)	(636,805)
		160,402	(1,445,233)
Employees' end of service indemnity paid		-	(22,378)
Net cash generated from / (used in) operating activities		160,402	(1,467,611)
Cash flows from investing activities			
Cash proceeds from sale of property held for sale		-	4,571,469
Additions to investment properties	*5*	(13,325)	(502,146)
Net cash (used in) / generated from investing activities		(13,325)	4,069,323
Cash flows from financing activity			
Repayment of Islamic finance payables		(428,164)	(2,289,652)
Net cash used in financing activity		(428,164)	(2,289,652)
Net change in cash and cash equivalents		(281,087)	312,060
Cash and cash equivalents at 1 January		348,901	36,841
Cash and cash equivalents at 31 December	*4*	67,814	348,901

The accompanying notes form an integral part of these consolidated financial statements.

1. Reporting entity

Hayat Invest Company K.S.C. (Closed) ("the Company") is a closed Kuwaiti shareholding company incorporated in the State of Kuwait on 21 December 2008. The Company was registered as an investment company with the Central Bank of Kuwait ("the CBK") on 17 February 2009 and operates under the supervision of the Capital Markets Authority ("the CMA") in accordance with the executive by-laws of Law No. 7 of 2010 pertaining to the establishment of the CMA and the regulation of securities activity and subsequent amendments ("Regulations").

The Company was registered with the commercial register on 30 December 2008 under registration number 330034.

The Company is domiciled in the State of Kuwait and its registered address is Al Jon Tower – 11th & 12th Floors, Fahad Al Salem Street, State of Kuwait.

The Company is primarily engaged in investment activities and carries its operations as per the articles and memorandum of association and guidelines of noble Islamic Shari'a. The objectives of the Company are as follows:

- Investment in the commercial, real estate, industrial, agricultural, services sectors through participation in new ventures, equities or sukuks in these companies;
- Manage assets for institutions, private and public investment authorities, individuals and invest these assets in various sectors through equities funds and real estate;
- Prepare feasibility studies, valuation and due diligence reports as well as private placement memorandums;
- Act as intermediary in Shari'a compliance transactions;
- Act as the placement manager to equity, fund and sukuk issued by investment authorities both public and private;
- Act as intermediary in foreign commercial transactions;
- Provide intermediation in finance activities whether for local or international clients, across various sectors, in accordance to rules and regulations of the CBK and in accordance to Islamic Shari'a principles;
- Deal and trade in foreign exchange, commodities, industrial metals and other assets in local and international markets;
- Carry out all types of transactions relating to trade and custody of securities including sale and purchase of securities and sukuk issued by companies and institutions, public and private, locally and domestically;
- Acquire industrial property rights, patents, trademarks, trade drawings, intellectual property rights and leasing of such rights to third parties;
- Manage portfolios, investments and seek capital growth through commercial transaction for its own accounts and for its clients in accordance with the governing laws;
- Invest the Company's assets in various asset classes as approved by the CBK, primarily in Islamic finance;
- Promote investment funds for itself and for other parties and offer these funds for placements as well as acting as the investment trustee or manager for these funds both locally and internationally, in accordance with the rules and regulations in place; and
- Carry out any other activity to develop and support the financial and money market in the State of Kuwait.

The consolidated financial statements comprise of Hayat Invest Company K.S.C. (Closed) and subsidiaries (together referred to as "the Group" and individually as "Group entities") and the Group's interest in jointly controlled entities.

Details of the Group entities and the jointly controlled entities as at 31 December 2018 are as follows:

Name of the company	Country of incorporation	Ownership interest		Principal activities
		2018	2017	
Jointly controlled entity				
Hayat Real Estate Investment Company L.L.C.	Saudi Arabia	50%	50%	Real Estate
Hayat Villas Company L.L.C.	Saudi Arabia	50%	50%	Real Estate
Subsidiaries				
Hayat Construction SAL	Lebanon	100%	100%	Construction
IMMOBILIAIRE BERYTUS SA	Panama	-	100%	Real Estate

During the year, the Group completed the legal procedures for the liquidation of IMMOBILIAIRE BERYTUS SA (note 14).

The Group's consolidated financial statements for the year ended 31 December 2018 were authorized for issue by Board of Directors on 18 February 2019. The shareholders of the Company have the power to amend these consolidated financial statements at the annual general assembly meeting.

2. Basis of preparation

a) Basis of accounting

The consolidated financial statements have been prepared in accordance with the regulations of the Government of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB") except for the measurement and disclosure requirements of expected credit losses ("ECL") on financing facilities under IFRS 9, *Financial Instruments*. Accordingly, provision for credit losses on financing facilities is the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions as described below.

The impairment provision for credit facilities complies in all material respects with the specific provision requirements of the CBK and IFRS. In addition, in accordance with the CBK instructions, a minimum general provision of 1% for the cash facilities and 0.5% for the non-cash facilities, net of certain categories of collateral, to which the CBK instructions are applicable and not subject to specific provision, is made.

In addition, the consolidated financial statements also comply with the relevant provisions of the Companies Law No. 1 of 2016, as amended, and its Executive Regulations and the Company's Memorandum of Incorporation and Articles of Association and Ministerial Order No. 18 of 1990.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items in the consolidated statement of financial position which are measured at fair value:

- Financial assets at fair value through other comprehensive income; and
- investment properties.

c) Functional and presentation currency

These consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the Group's functional currency.

d) Changes in accounting policies

The Group has adopted the following new standards and amendments effective during the year.

IFRS 15, Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted IFRS 15 with effect from 1 January 2018 resulting in no change in the revenue recognition policy of the Group in relation to its contracts with customers. Further, adoption of IFRS 15 had no impact on this consolidated financial statements of the Group.

IFRS 9, Financial Instruments
The Group has adopted IFRS 9, *Financial Instruments* issued in July 2014 with a date of initial application of 1 January 2018, with the exception of requirements of the expected credit losses on loans and advances. The requirements of IFRS 9 represent a significant change from IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized in note 2(e).

e) Financial instruments

i. Classification of financial assets - Policy applicable from 1 January 2018

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

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

(1) Financial assets carried at amortised cost;
(2) Financial assets carried at fair value through other comprehensive income (FVOCI); and
(3) Financial assets carried at fair value through profit or loss (FVTPL)

(1) Financial assets carried at amortised cost:

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

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

Cash and cash equivalents and other assets excluding certain non-financial assets are classified as financial assets carried at amortised cost.

(a) Business model assessment

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

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

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

(b) The SPPP test

As a second step of its classification process, the Group assesses the contractual terms of financial asset to identify whether they meet the SPPP test.

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

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

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

Further, financial assets held at amortised cost are subsequently measured at amortised cost using the effective profit rate method. The amortised cost is reduced by impairment losses. Income from loans and advances, foreign exchange gains and losses and impairment are recognised in the consolidated statement of income. Any gain or loss on de-recognition is recognised in the consolidated statement of profit or loss and other comprehensive income.

(2) Financial assets carried at fair value through other comprehensive income (FVOCI)

(i) Debt instruments at FVOCI

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income ("OCI"). Financing income and foreign exchange gains and losses and impairment losses are recognised in consolidated statement of profit or loss and other comprehensive income. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from equity to the consolidated statement of profit or loss and other comprehensive income.

The Group does not have debt instrument at FVOCI category as at the reporting date.

(ii) Equity instruments at FVOCI

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

Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity. Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on derecognition and are not recognised in the consolidated statement of profit or loss and other comprehensive income. Dividend income on equity investments at FVOCI is recognised in the consolidated statement of profit or loss and other comprehensive income unless it clearly represents a recovery of part of the cost of the investment in which case it is recognised in other comprehensive income. Equity investments at FVOCI are not subject to impairment assessment.

The Group has classified its available for sale investment as FVOCI with effect from 1 January 2018 at fair value.

(3) Financial assets carried at fair value through profit or loss (FVTPL)

The Group recorded and measured financial assets at FVTPL in the consolidated statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset at FVTPL if it meet the requirements to be measured at amortised cost or at FVOCI and by doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair values, financing income and dividends are recorded in the consolidated statement of profit or loss and other comprehensive income according to the terms of the contract, or when the right to payment has been established.

The Group does not have financial assets that are classified as FVTPL as at the reporting date.

ii. Classification and measurement of financial assets – Policy applicable before 1 January 2018

The Group classifies non-derivative financial assets into the following categories:

- loans and receivables;
- financial asset at fair value through profit or loss; and
- financial assets available for sale.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective profit rate method, less any impairment losses.

Loans and receivables comprise cash and bank balances, receivables and other assets.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in the statement of profit or loss and other comprehensive income as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any profit or dividend income, are recognised in the consolidated statement of profit or loss and other comprehensive income.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Financial assets available for sale are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available for sale are recognized in other comprehensive income and presented in the cumulative changes in fair value in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to the consolidated statement of profit or loss and other comprehensive income.

Financial assets available for sale comprise of equity securities.

Reclassification of financial assets

The Group does not reclassify its financial assets subsequent to their initial recognition apart in the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line.

iii. Impairment of financial assets - Policy applicable from 1 January 2018

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The management has applied the new impairment model to financial assets excluding loans and advances carried at amortised cost.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. Key change in the Group's accounting policy for impairment of financial assets are listed below.

The Group applies three-stage approach to measuring expected credit losses (ECL). Assets migrate through the following three stages based on the change in credit quality since initial recognition.

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.

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 Group's methodology for specific provisions remains largely unchanged.

Lifetime ECL is recorded on financial assets that are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of loans and advances by the Group on terms that the Group would not consider otherwise;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Impairment of loans and advances
The Group recognises provision charge for loans and advances in accordance with the existing accounting policy for impairment of financial assets carried at amortised cost as disclosed in note 2(a). This complies in all material respects with the specific and general provision requirements of the CBK.

iv. Impairment of financial assets – Policy applicable before 1 January 2018

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the consolidated statement profit or loss and other comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

v. Hedge accounting- Policy applicable from 1 January 2018

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

As at 31 December 2018, the Group does not have any hedge relationships. Hence, the hedging requirements of IFRS 9 did not have an impact on Group's consolidated financial statements.

vi. Offsetting

Financial assets and financial liabilities are offset and the net amounts reported in the statement of financial position only when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

vii. *Financial liabilities*

For financial liabilities, the Group has concluded that there is no impact on accounting for financial liabilities under IFRS 9 as compared to the requirements of IAS 39.

All financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective profit method. The Group does not hold any derivative financial liabilities.

Financial liabilities comprises payables and other liabilities and due to a related party.

viii. 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 the statement profit or loss and other comprehensive income.

ix. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied prospectively without restating the comparative periods. Differences in the carrying amounts of financial assets 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.

x. Impact of adopting IFRS 9

The impact of change in accounting policy as at 1 January 2018 is set out below:

	Cumulative changes in fair value
	KD
Closing balance under IAS 39 as at 31 December 2017	-
Opening balance impact on reclassification and re-measurement:	
Available for sale investments to FVOCI	(14,848)
Total transition adjustment on adoption of IFRS 9 as at 1 January 2018	(14,848)
Opening balance under IFRS 9 as at 1 January 2018	(14,848)

Classification of financial assets 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.

	Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**Re-measurement**	**New carrying amount under IFRS 9**
	KD	**KD**	**KD**	**KD**	**KD**
Cash and cash equivalents	Loans and receivables	Amortised cost	348,901	-	348,901
Investments in unquoted equity	Available for sale investments	FVOCI	90,134	(14,898)	75,286
Other assets	Loans and receivables	Amortised cost	6,421,968	-	6,421,968
			6,861,003	(14,898)	6,846,155

The Group's management made an assessment for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018 and concluded that carrying amounts in accordance with IAS 39 as at 31 December 2017 are equivalent to the carrying value as per IFRS 9. Hence, no ECL allowance was recognized in the opening balance as at 1 January 2018.

f) Use of judgments and estimates

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

(i) Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements include the following:

Classification of financial instruments

The Group has to comply with IFRS 9 regarding the classification of financial instruments unless the management has decided to irrevocably designate a financial instrument to be measured at FVTPL if it meet the requirements to be measured at amortised cost or at FVOCI and by doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Classification of properties

Determining the classification of a property depends on particular circumstances and management's intentions. Property that is held for resale in the ordinary course of business or that in the process of development for such sale is classified as inventory. Property held to earn rental income or for capital appreciation, or both is classified as investment property. Property held for use in the production or supply of goods and services or for administrative purposes is classified as property and equipment.

(ii) Assumptions and estimation uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 includes:

- impairment test: key assumptions underlying recoverable amounts, including the recoverable amounts.
- recognition and measurement of provisions: key assumptions about the likelihood and magnitude of an outflow of resources.

Measurement of fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2:** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the methods used in arriving at fair values is included in note 5.

3. Significant accounting policies

Except for changes explained in note 2(d), the Group has consistently applied the accounting policies set below to all periods presented in these consolidated financial statements.

a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Accounting policies of subsidiaries and joint ventures are consistent with the accounting policies adopted by the Group.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and other components of equity. Any resulting gain or loss is recognised in the consolidated statement of profit or loss and other comprehensive income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Investment in equity-accounted investees

The Group's interests in equity-accounted investees comprise of interests in joint ventures. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investment in a joint venture is accounted for using the equity method and is recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity accounted investee, until the date on which joint control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Cash and cash equivalents

Cash and bank balances comprise of cash balances and call deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

c) Time deposits with banks

Time deposits with banks comprises the deposits made in banks with original maturities less than one year from the acquisition date.

d) Investment properties

Investment property is property, held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property under construction is recognized initially at cost and remeasured subsequently at fair value. Changes in fair value is recognized in the consolidated statement of profit or loss and other comprehensive income. Changes in the carrying amount of investment property under construction in any given period will include additions recognized at cost and changes in the fair value of the property.

e) Other assets

Other assets are stated at amortized cost less impairment losses (note 2(e) (iii), except for the following:

(i) Intangible assets

Intangible assets represent computer software licenses. Software licenses acquired by the Group are stated at cost less accumulated amortization and any impairment losses (note 3(i)).

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in consolidated statement of profit or loss and other comprehensive income as incurred.

Amortization is recognized in the consolidated statement of profit or loss and other comprehensive income on a straight line basis over the estimated useful lives of the software licenses from the date they are available for use. The estimated useful life of computer software licenses is three years.

(ii) Property and equipment

Recognition and measurement

Property and equipment is measured at cost less accumulated depreciation and impairment losses (note 3(i)). Cost includes expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from the disposal with the carrying amount of property and equipment and are recognized in the consolidated statement profit or loss and other comprehensive income.

Depreciation

Depreciation is recognized in the consolidated statement of profit or loss and other comprehensive income on a straight line basis over the estimated useful lives of each component of an item of property and equipment.

The estimated useful lives of property and equipment are as follows:

Office furniture and decorations	5 years
Office equipment	5 years
Computers	3 years

Depreciation method and useful lives are reviewed at each reporting date.

f) Islamic finance payables

(i) Murabaha

Murabaha payables represent the amount payable on a deferred settlement basis for assets purchased under murabaha agreements. Murabaha payables are stated at the net amount of the payable. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding. Finance cost is recognized in the consolidated statement of profit or loss and other comprehensive income as an expense.

(ii) Wakala

Wakala payables comprise of amounts invested by third parties under wakala arrangements for onward deals by the Group in various Islamic investment products.

Wakala payables are recognized initially at cost and are subsequently carried at amortised cost using the effective profit rate method.

g) Other liabilities

Other liabilities are stated at amortized cost.

h) Revenue recognition

Islamic finance income

Income from wakala contracts is recognized on a time proportion basis, taking into account the principal amount outstanding and the applicable rates of expected profit using the effective profit rate method.

Fees and commission income

Fees and commission income represents asset management fees earned by the Group on fiduciary activities. Fees and commission income are recognized on an accrual basis.

Dividend income

Dividend income is recognized when the right to receive the dividend is established.

i) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of profit or loss and other comprehensive income.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately the consolidated statement of profit or loss and other comprehensive income.

j) Foreign currency

Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in the consolidated statement of profit or loss and other comprehensive income. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

Foreign operations

The assets and liabilities of foreign operations are translated into KD at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into KD at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the translation reserve in equity.

When a foreign operation is disposed of in its entirety or partially such that control, is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non controlling interest.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, then foreign currency differences arising from such item form part of the net investment in the foreign operation.

Accordingly, such differences are recognised in other comprehensive income and accumulated in the translation reserve in equity.

k) Employees' benefits

Employees are entitled to an end of service indemnity payable under the Kuwait Labor Law based on the employees' accumulated periods of service and latest entitlements of salaries and allowances. Provision for this unfunded commitment represents a defined benefit plan.

Kuwaiti employees

Pensions and other social benefits for Kuwaiti employees are covered by the Public Institution for Social Security scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme, is charged to the consolidated statement of profit or loss and other comprehensive income in the year to which they relate.

l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

m) Fiduciary assets

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

n) Taxation

The Company is registered in the State of Kuwait. Under the laws of State of Kuwait, there is no income, estate, corporation, capital gains or other taxes payable by the Company.

Investment income and capital gain received by the Company may be subject to withholding tax imposed in the country of origin. Such income or gains are recorded net of withholding taxes in the consolidated statement of profit and loss and other comprehensive income.

o) Kuwait Foundation for the Advancement of Sciences ("KFAS")

The Company is required to contribute to KFAS. The Company's contributions to KFAS are recognized as an expense in the year during which the Company's contribution is required. Contribution towards KFAS is computed at 1% of the net profit after deducting 10% transfer to the statutory reserve until the reserve reaches 50% of the share capital where such transfer shall be discontinued and contribution to KFAS shall then be calculated based on the entire net profit after excluding profits from Kuwaiti shareholding subsidiaries and associates.

p) Zakat

Contribution towards Zakat is computed and provided for in accordance with the requirements of Law No. 46 of 2006 and charged to the consolidated statement of profit or loss and other comprehensive income.

q) New standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below:

IFRS 16, Leases

The Group is required to adopt IFRS 16 from 1 January 2019. The Group is in the process of making an assessment and quantifying the impact that initial application of IFRS 16 will have on its financial statements. The actual impact of adopting the standard on 1 January 2019 may change because:

- the Group has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including 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.*

I. Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous contracts. Instead, the Group will include the payments due under the lease in its lease liability.

II. Leases in which the Group is a lessor

As at the reporting date, the Group has not entered into any contracts in which the Group is a lessor.

III. Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, if required, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

4. Cash and cash equivalents

	2018 KD	2017 KD
Cash and bank balances	67,814	138,901
Time deposits with original maturity of three months or less	-	210,000
	67,814	348,901

There is no balance of time deposits as at 31 December 2018. The effective profit rate on time deposits, held with a related party, as at 31 December 2017 was 2.417% per annum.

5. Investment properties

	2018 KD	2017 KD
Balance at 1 January	4,408,826	4,485,465
Additions to investment properties	13,325	502,146
Change in fair value of investment properties (note 12)	(307,990)	(578,785)
Carrying amount at 31 December	4,114,161	4,408,826

The fair value of investment properties is determined based on the lower of two valuations performed as at 31 December 2018 and 2017 by accredited independent valuers, who are the industry specialists in valuing this type of investment property.

The fair value measurement for investment properties has been catagorised under Level 2 based on the inputs to the valuation techniques used. For the purpose of measuring fair value, the replacement principle has been used by the valuers which reflects the current market expectations about the future estimated replacement cost in the country in which the investment properties are located.

6. Investment in equity-accounted investees

The Group has two joint ventures, both of which are equity accounted.

	Hayat Real Estate Investment Company L.L.C.	**Hayat Villas Company L.L.C**
Principal activities	Real estate	Real estate
Ownership	50%	50%
Principal place of business or country and incorporation	Saudi Arabia	Saudi Arabia

Hayat Real Estate Investment Company L.L.C and Hayat Villas Company L.L.C are structured as separate entities and the Group has 50% ownership in respective companies. Accordingly, the Group has classified its interest in Hayat Real Estate Investment Company L.L.C. and Hayat Villas Company L.L.C as joint ventures.

In accordance with the agreement under which Hayat Real Estate Investment Company L.L.C and Hayat Villas Company L.L.C are established, the Group and the other investor in the joint venture have agreed to make 50% contribution each and to undertake any decisions jointly.

The following table summarizes the financial information of Hayat Real Estate Investment Company L.L.C and Hayat Villas Company L.L.C. The table also reconciles the summarized financial information to the carrying amount of the Group's interest in Hayat Real Estate Investment Company L.L.C and Hayat Villas Company L.L.C.

	Hayat Real Estate Investment Company L.L.C		Hayat Villas Company L.L.C	
	2018	2017	2018	2017
	KD	KD	KD	KD
Non-current assets	176,195,095	189,615,320	-	-
Current assets	9,322,043	13,767,347	16,623,391	17,530,779
Non-current liabilities	(53,709,946)	(53,435,388)	(12,790,127)	(11,932,614)
Current liabilities	(18,065,435)	(25,485,305)	(1,021,024)	(2,771,958)
Net assets	113,741,757	124,461,974	2,812,240	2,826,207
Group's share of net assets	56,870,879	62,230,987	1,406,120	1,413,104
Carrying amount of interest in joint venture	56,870,879	62,230,987	1,406,120	1,413,104
Revenue	(3,460,818)	(26,659,825)	624,144	10,754,475
Operating expenses	(7,869,792)	(7,481,485)	(652,559)	(7,783,940)
(Loss) / profit	(11,330,610)	(34,141,310)	(28,415)	2,970,535
Group's share of (loss) / profit	(5,665,305)	(17,070,655)	(14,208)	1,485,268
Movement in Group's share of interest in nets assets of equity-accounted investees				
Carrying amount at 1 January	62,230,987	80,309,905	1,413,104	1
Group's share of (loss) / profit	(5,665,305)	(17,070,655)	(14,208)	1,485,268
Foreign exchange impact	305,197	(1,008,263)	7,224	(72,165)
Carrying amount at 31 December	56,870,879	62,230,987	1,406.120	1,413,104

7. Other assets

	2018	2017
	KD	KD
Advance for investment	-	6,415,053
Prepayments	55,783	54,713
Receivables	5,340	6,915
Due from related parties (note 11)	5,788,658	-
Property and equipment	737	2,418
	5,850,518	6,479,099

Advance for investment constitutes the contribution by the group towards the increase in the share capital of Hayat Real Estate Investment Company L.L.C. During the year this was transferred to due from related parties after a partial settlement of SAR 11 million (approximately KD 891 thousand) upon cancellation of share capital increase by the joint owners of the joint venture.

8. Islamic finance payables

	2018 KD	2017 KD
Murabaha	12,073,839	11,866,792
Wakala	2,546,946	2,370,901
	14,620,785	14,237,693

The maturity of Islamic finance payables is disclosed in note 18.

The effective profit rate on Islamic finance payables ranges from 5.25% to 6.75% per annum (2017: 5.12% to 6.50% per annum).

9. Other liabilities

	2018 KD	2017 KD
Zakat payable	9,027	9,027
KFAS payable	7,557	7,557
Provision for staff employment benefits	773,182	610,407
Other payables	426,072	799,617
	1,215,838	1,426,608

10. Equity

Share capital

The Company's authorized, issued and fully paid up share capital in cash amounts to KD 15,000,000 (2017: KD 15,000,000) comprising of 150,000,000 (2017: 150,000,000) shares of 100 fils each.

Statutory reserve

In accordance with the Companies Law No. 1 of 2016, as amended, and its Executive Regulations and the Company's Articles of Association, 10% of profit for the year, before contribution to KFAS, Zakat and Directors' remuneration, is transferred to a statutory reserve until the reserve totals 50% of the paid up share capital.

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

No transfer to statutory reserve has been made due to the net losses incurred during the year and previous year.

Voluntary reserve

As required by the Company's Articles of Association, 10% of the profit for the year, before contribution to KFAS, Zakat and Directors' remuneration is required to be transferred to a voluntary reserve. Such annual transfers can be discontinued by a resolution of shareholders in the annual general assembly meeting upon recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve.

No transfer to voluntary reserve has been made due to the net losses incurred during the year and previous year.

11. Related party balances and transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions and has joint control over the other party.

Related parties primarily comprise the Company's major shareholders, Directors, subsidiaries, associates, jointly controlled entities, key management personnel and their close family members. Transactions with related parties are conducted in the normal course of business and are on terms and conditions approved by the Company's management or by the Board of Directors.

Balances with related parties were as follows:

	2018 KD	2017 KD
Due from related parties		
Jointly controlled entities		
Other assets	5,788,658	6,415,053
Due to related parties		
Shareholders and related to shareholders		
Islamic finance payables	14,091,922	14,208,423
Accrued profit on Islamic finance payables	528,863	29,270
Time deposits	-	210,000
Accrued profit on time deposits	-	4,267
Bank balances	57,114	116,547
Other liabilities	382,827	382,827
Key management personnel		
Other liabilities	457,023	415,447
Transactions with related parties		
Shareholders		
Profit on Islamic finance payables	811,256	853,625
Profit from time deposits	710	14,957

Compensation to key management personnel

Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

Significant transactions with key management personnel during the year represent salaries, allowances and other benefits amounting to KD 256,190 (2017: KD 317,082).

12. Net investment income / (loss)

	2018 KD	2017 KD
Change in fair value of investment properties (note 5)	(307,990)	(578,785)
Profit from time deposits with banks	710	14,957
Foreign exchange gain	434,151	73,231
Other income	10,677	42,651
	137,548	(447,946)

13. Other expenses

	2018 KD	2017 KD
Rent	55,776	50,664
Professional fees	43,415	58,769
Travel expenses	17,225	36,039
Fees and subscription	2,011	17,135
Direct investment cost	-	5,750
Others	53,740	311,065
	172,167	479,422

14. Gain on liquidation of a subsidiary

During the year, the Group has completed the legal procedures for the liquidation of its fully owned subsidiary, IMMOBILIAIRE BERYTUS SA. Upon liquidation, the net assets were transferred to the Company by offsetting the related party payables. The difference between the carrying value of the investment at the time of liquidation and net assets transferred to the shareholders of the Parent Company, resulted in cumulative differences of foreign currency translation amounting to KD 327,981 recycled to the consolidated statement of profit or loss and other comprehensive income.

15. Basic and diluted loss per share

	2018	2017
Loss for the year (KD)	(6,704,965)	(17,964,803)
Weighted average number of shares outstanding during the year	150,000,000	150,000,000
Basic and diluted loss per share (fils)	(44.70)	(119.77)

16. Fiduciary assets

Fiduciary assets comprise investments managed by the Group on behalf of clients. These are not assets of the Group and accordingly are not included in the consolidated financial statements.

As at the reporting date, total fiduciary assets managed by the Group amounted to KD 2,768,740 (2017: KD 2,658,306). The fee and commission earned on fiduciary assets amounted to KD 2,788 (2017: KD 30,850).

17. Financial instruments – Fair values

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The estimated fair values of the Group's financial instruments as at reporting date are not significantly different from their carrying values due to the short to medium term nature of the financial assets and financial liabilities.

The fair value of financial assets at fair value through other comprehensive income amounting to KD 83,913 (2017: KD 90,134 previously classified as available for sale investments) is determined based on an internal valuation performed by the management.

The fair value measurement for this investment has been catagorised under Level 3 based on the inputs to the valuation techniques used.

For the purpose of measuring fair value, the discounted cash flow principle has been used by the management. The impact on the consolidated statement of financial position or the consolidated statement of changes in equity would be immaterial if the relevant risk variables used to fair value this investment were either decrease or increase by 5 per cent.

18. Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing such risks. Further quantitative disclosures are included throughout the consolidated financial statements.

Risk management framework

The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from balances with banks and Islamic finance receivables.

The Group limits its exposure to credit risk by only placing funds with counterparties that have high credit ratings. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Exposure to credit risk

The carrying amount of financial assets as at 31 December represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2018 KD	2017 KD
Cash and cash equivalents	67,238	348,401
Other assets (excluding prepayments and property and equipment)	5,793,998	6,421,968
	5,861,236	6,770,369

The maximum exposure to credit risk for balances with banks and Islamic finance receivables at the reporting date by sector and geographic region is as follows:

2018	Balances with banks KD	Balances with other parties KD	Total KD
Carrying amounts	67,238	5,793,998	5,861,236
Concentration by sector			
Government	5,000	-	5,000
Banks	62,238	-	62,238
Real estate	-	5,793,998	5,793,998
	67,238	5,793,998	5,793,998
Concentration by location			
GCC	61,893	-	61,893
Europe	5,345	-	5,345
Saudi Arabia	-	5,793,998	5,793,998
	67,238	5,793,998	5,861,236

2017	Balances with banks KD	Balances with other parties KD	Total KD
Carrying amounts	348,401	6,421,968	6,770,369
Concentration by sector			
Government	5,000	-	5,000
Banks	343,401	-	343,401
Real estate	-	6,421,968	6,421,968
	348,401	6,421,968	6,770,369
Concentration by location			
GCC	333,582	-	333,582
Europe	14,819	-	14,819
Saudi Arabia	-	6,421,968	6,421,968
	348,401	6,421,968	6,770,369

Balances with banks

Bank balances and time deposits are held with bank and financial institution counterparties, which are highly rated. Impairment on bank balances has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its bank balances have low credit risk based on the external credit ratings of the counterparties. The 12 month ECL computed on the bank balances and term deposits are insignificant. Hence, no provision for ECL on bank balances are recognized.

Balances with other parties

Balances with other parties of the Group mainly consist of receivables from related parties. Transactions with related parties are carried out on a negotiated contract basis. The related parties are with high credit rating and repute in the market. Impairment on the due from a related party have been measured on the basis of lifetime expected credit losses. The Company considers that these have low credit risk based on historical experiences, available press information and experienced credit judgment. As on 31 December 2018, these are neither impaired nor due. Based on the assessment performed by the Group, no provision for ECL on those balances were recognized.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates, profit rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return.

Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in equity market prices, whether caused by factors specific to an individual investment, issuer or all factors affecting all instruments traded in the market.

The Group is not exposed to equity price risk at the reporting date.

Profit rate risk

Profit rate risk is the risk that the fair value or future cash flows of Group's financial instrument will fluctuate because of changes in market profit rates.

Financial instruments which potentially subject the Group to profit rate risk consist principally of Islamic finance payables.

As at 31 December 2018, the Group's Islamic finance payables are for a short term nature and hence, any fluctuation in the profit rate would not have any significant impact.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to foreign exchange risk arising from various currency exposures.

Currency exposure arising from this managed primarily through purchasing in the relevant currency and maintaining bank accounts in the relevant currency.

The Group is exposed to currency risk on investments at jointly controlled entities, investment at fair value through other comprehensive income, bank accounts and payables denominated in currencies other than Kuwaiti Dinar.

Exposure to currency risk

As at reporting date, the Group has the following significant net assets exposures determined in foreign currencies:

2018	KD	Change in currency rate in %	Effect on profit or loss KD
US$	(2,546,946)	10	(254,695)
SR	5,788,658	10	578,866

2017	KD	Change in currency rate in %	Effect on profit or loss KD
US$	2,370,901	10	237,090

A 10% weakening of KD against the above currencies at 31 December would have an equal but opposite effect, on the basis that all variables remain constant.

19. Capital management

The management's policy is to maintain a strong capital base to sustain future development of the business. The management monitors the return on capital through operating cash flow management. The management seeks to maintain a balance between higher returns and the advantages and security offered by a sound capital position. The Group is not subject to externally imposed capital requirements, except the minimum capital requirements of the Companies Law No. 1 of 2016, as amended, and its Executive Regulations.

20. Capital commitments

During the year, the Group did not enter into any contracts that may result in capital commitments either from investment property that is under construction or from its interest in joint venture (2017: nil).

21. Contingent liabilities

The Group has provided guarantee to a bank in relation to a borrowing taken by its joint venture, Hayat Real Estate Investment Company L.LC. As per the guarantee, the Group will service the debt service reserve account of the bank up to maximum KD 2,268 thousand (2017: KD 2,256 thousand) being its share of 50%, in the event the joint venture is unable to repay the bank.