

**A'AYAN LEASING AND INVESTMENT  
COMPANY K.S.C.P. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2022**

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF A'AYAN LEASING AND INVESTMENT COMPANY K.S.C.P.**

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

#### **Opinion**

We have audited the consolidated financial statements of A'ayan Leasing and Investment Company K.S.C.P. (the "Parent company") and subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted by the Central Bank of Kuwait for use by the State of Kuwait.

#### **Basis for Opinion**

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

#### **Key Audit Matters**

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

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

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF A'AYAN LEASING AND INVESTMENT COMPANY K.S.C.P. (continued)**

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

#### **Key Audit Matters (continued)**

##### *Fair value measurement of investment properties*

Investment properties represent a significant part of the total assets of the Group with a carrying value of KD 31,216,201 at the reporting date. The fair values of the Group's investment properties have been determined by external real estate appraisers. The determination of fair value of the investment properties is dependent on key inputs, such as rental value, maintenance status, market knowledge and historical transactions, which, although not directly observable, but are corroborated by observable market data. The disclosures relating to the inputs are relevant, given the estimation uncertainty involved in these valuations. The methodology applied in determining the valuations is set out in Note 16 to the consolidated financial statements.

Given the size and complexity of the valuation of investment properties, and the importance of the disclosures relating to the inputs used in such valuations, we have considered this as a key audit matter.

Our audit procedures included, among others, the following:

- ▶ We have considered the methodology and the appropriateness of the valuation models and inputs used to value the investment properties.
- ▶ We have tested the inputs and assumptions made by management of the Group and the appropriateness of the properties' related data supporting the external appraisers' valuations.
- ▶ We performed procedures for areas of risk and estimation. This included, where relevant, comparison of judgments made to current market practices and challenging the valuations on a sample basis based on evidence of comparable market transactions and other publicly available information.
- ▶ We evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions on the fair value of investment properties.
- ▶ Further, we have considered the objectivity, independence and expertise of the external real estate appraisers.
- ▶ We also assessed the appropriateness of the disclosures relating to the investment properties of the Group in Note 16 to the consolidated financial statements highlighting the estimation and uncertainty involved in valuation.

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF A'AYAN LEASING AND INVESTMENT COMPANY K.S.C.P. (continued)**

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

#### **Other information included in the Group's 2022 Annual Report**

Management is responsible for the other information. Other information consists of the information included in the Group's 2022 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, as adopted by the Central Bank of Kuwait 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.

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

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

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF A'AYAN LEASING AND INVESTMENT COMPANY K.S.C.P. (continued)**

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

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

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

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

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

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

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF A'AYAN LEASING AND INVESTMENT COMPANY K.S.C.P. (continued)**

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

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

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

#### **Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2022 that might have had a material effect on the business of the Parent Company or on its financial position.

We further report that, during the course of our 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 organisation of banking business, and its related regulations, or of the provisions of Law No 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2022 that might have had a material effect on the business of the Parent Company or on its financial position.



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WALEED A. AL OSAIMI

LICENCE NO. 68 A

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AL AIBAN, AL OSAIMI & PARTNERS

24 January 2023

Kuwait

# A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Notes	2022 KD	2021 KD
<b>INCOME</b>			
Islamic finance income		18,806	20,518
Income from leasing operations	6	12,685,130	10,614,955
Net real estate income	7	3,882,519	3,335,612
Net income from investments and saving deposits	8	616,361	286,742
Share of results of associates	15	821,953	(1,392,564)
Hair-cut income on settlement of Islamic finance payables		-	1,389,516
Advisory and management fees	26	258,093	197,689
Other income	9	822,826	1,637,346
		<b>19,105,688</b>	<b>16,089,814</b>
<b>EXPENSES</b>			
Net (charge) reversal of finance costs		(112,976)	1,306,447
Net allowance of expected credit losses and other provisions	10	(156,041)	(2,237,025)
Staff costs		(5,771,248)	(5,173,183)
Depreciation	18	(387,436)	(376,171)
Net foreign exchange differences		(143,382)	12,258
Other expenses	11	(1,941,835)	(2,102,764)
		<b>(8,512,918)</b>	<b>(8,570,438)</b>
<b>PROFIT BEFORE TAX AND DIRECTORS' REMUNERATION</b>		<b>10,592,770</b>	<b>7,519,376</b>
Taxation		(233,111)	(228,829)
Taxation from subsidiaries		(221,846)	(200,702)
Directors' remuneration	27	(120,000)	-
<b>PROFIT FOR THE YEAR</b>		<b>10,017,813</b>	<b>7,089,845</b>
<b>Attributable to:</b>			
Equity holders of the Parent Company		9,002,288	6,099,104
Non-controlling interests		1,015,525	990,741
<b>PROFIT FOR THE YEAR</b>		<b>10,017,813</b>	<b>7,089,845</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	12	<b>13.18 fils</b>	<b>8.24 fils</b>

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

# A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	2022 KD	2021 KD
<b>PROFIT FOR THE YEAR</b>		<b>10,017,813</b>	7,089,845
<b>Other comprehensive loss</b>			
<i>Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		<b>(1,699,674)</b>	(36,063)
		<b>(1,699,674)</b>	(36,063)
<i>Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:</i>			
Share of other comprehensive loss of associates	15	<b>(280,063)</b>	(19,123)
Net loss on equity investments designated at fair value through other comprehensive income		-	(989,175)
<b>Total other comprehensive loss</b>		<b>(1,979,737)</b>	(1,044,361)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>8,038,076</b>	6,045,484
<b>Attributable to:</b>			
Equity holders of the Parent Company		<b>8,015,170</b>	5,075,696
Non-controlling interests		<b>22,906</b>	969,788
		<b>8,038,076</b>	6,045,484

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



A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 KD	2021 KD
<b>ASSETS</b>			
Cash and cash equivalents	13	17,014,416	30,942,199
Financial assets at fair value through profit or loss	32	9,694,274	1,972,864
Investment in associates	15	20,091,871	11,141,315
Investment properties	16	31,216,201	32,000,157
Other assets	17	11,431,287	7,779,131
Property and equipment	18	61,306,585	52,786,678
Leasehold property	19	501,111	1,444,870
Goodwill		91,005	91,005
<b>TOTAL ASSETS</b>		<b>151,346,750</b>	<b>138,158,219</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	20	66,403,882	71,403,882
Statutory reserve	21	1,713,799	778,259
Asset revaluation surplus	22	8,755,469	8,755,469
Foreign currency translation reserve		(924,518)	(229,464)
Effect of changes in reserve of associates		691,287	949,747
Retained earnings		14,583,738	6,596,360
<b>Equity attributable to equity holders of the Parent Company</b>		<b>91,223,657</b>	<b>88,254,253</b>
Non-controlling interests	5	12,250,888	12,983,077
<b>Total equity</b>		<b>103,474,545</b>	<b>101,237,330</b>
<b>Liabilities</b>			
Islamic finance payables	23	14,460,726	4,571,241
Other liabilities	24	33,411,479	32,349,648
<b>Total liabilities</b>		<b>47,872,205</b>	<b>36,920,889</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>151,346,750</b>	<b>138,158,219</b>

Mansour Hamad Al-Mubarak  
Chairman

Abdullah Mohammed Al Shatti  
Chief Executive Officer

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

# A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to equity holders of the Parent Company												
	Share capital KD	Statutory reserve KD	General reserve KD	Treasury shares KD	Treasury shares reserve KD	Asset revaluation surplus KD	Foreign currency translation reserve KD	Fair value reserve KD	Effect of changes in reserve of associates KD	Retained earnings KD	Subtotal KD	Non-controlling interests KD	Total equity KD
As at 1 January 2022	71,403,882	778,259	-	-	-	8,755,469	(229,464)	-	949,747	6,596,360	88,254,253	12,983,077	101,237,330
Profit for the year	-	-	-	-	-	-	-	-	-	9,002,288	9,002,288	1,015,525	10,017,813
Other comprehensive loss	-	-	-	-	-	-	(707,055)	-	(280,063)	-	(987,118)	(992,619)	(1,979,737)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(707,055)	-	(280,063)	9,002,288	8,015,170	22,906	8,038,076
Partial reduction of share capital (Note 20)	(5,000,000)	-	-	-	-	-	-	-	-	-	(5,000,000)	-	(5,000,000)
Transfer to reserve	-	935,540	-	-	-	-	-	-	-	(935,540)	-	-	-
Transfer to retained earnings upon partial disposal of investment in associates	-	-	-	-	-	-	-	-	21,603	(21,603)	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(878,264)	(878,264)
Change in ownership interest in subsidiaries	-	-	-	-	-	-	12,001	-	-	(57,767)	(45,766)	123,169	77,403
<b>As at 31 December 2022</b>	<b>66,403,882</b>	<b>1,713,799</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,755,469</b>	<b>(924,518)</b>	<b>-</b>	<b>691,287</b>	<b>14,583,738</b>	<b>91,223,657</b>	<b>12,250,888</b>	<b>103,474,545</b>
As at 1 January 2021	81,403,882	145,466	8,661,656	(11,339,726)	2,678,070	8,755,469	(214,354)	-	968,870	130,727	91,190,060	12,400,479	103,590,539
Profit for the year	-	-	-	-	-	-	-	-	-	6,099,104	6,099,104	990,741	7,089,845
Other comprehensive loss	-	-	-	-	-	-	(15,110)	(989,175)	(19,123)	-	(1,023,408)	(20,953)	(1,044,361)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(15,110)	(989,175)	(19,123)	6,099,104	5,075,696	969,788	6,045,484
Partial reduction of share capital	(10,000,000)	-	-	1,392,953	(1,241,125)	-	-	-	-	-	(9,848,172)	-	(9,848,172)
Sale of treasury shares	-	-	(8,661,656)	9,946,773	(1,436,945)	-	-	-	-	1,988,072	1,836,244	-	1,836,244
Transfer to reserve	-	632,793	-	-	-	-	-	-	-	(632,793)	-	-	-
Transferred to retained earnings upon disposal/derecognition	-	-	-	-	-	-	-	989,175	-	(989,175)	-	-	-
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(387,879)	(387,879)
Change in ownership interest in subsidiaries	-	-	-	-	-	-	-	-	-	425	425	689	1,114
<b>As at 31 December 2021</b>	<b>71,403,882</b>	<b>778,259</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,755,469</b>	<b>(229,464)</b>	<b>-</b>	<b>949,747</b>	<b>6,596,360</b>	<b>88,254,253</b>	<b>12,983,077</b>	<b>101,237,330</b>

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

# A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 KD	2021 KD
<b>OPERATING ACTIVITIES</b>			
Profit before tax and directors' remuneration		10,592,770	7,519,376
<i>Non-cash adjustments to reconcile profit before tax to net cash flows:</i>			
Depreciation and amortisation		10,676,495	10,318,910
Hair-cut income on settlement of Islamic finance payables		-	(1,389,516)
Net allowance of expected credit losses and other provisions	10	156,041	2,237,025
Gain on sale of investment properties	16	(58,130)	(500,000)
Valuation losses from investment properties	16	44,384	63,500
Gain on disposal of property and equipment	9	(358,738)	(31,950)
Income from investments and saving deposits		(320,590)	(286,742)
Income from disposal of investment in associates	8	(295,771)	-
Income from disposal of investment in associates on settlement of Islamic finance payables	9	-	(1,278,324)
Share of results of associates	15	(821,953)	1,392,564
Redemption from investments in associates	9	(182,950)	(66,179)
Net foreign exchange differences		143,382	(12,258)
Provision for employees end of service benefits		461,328	425,830
Finance costs		163,980	(1,243,624)
		<b>20,200,248</b>	<b>17,148,612</b>
<i>Changes in operating assets and liabilities:</i>			
Islamic finance receivables		86,953	104,351
Other assets		(20,740,263)	(6,541,601)
Other liabilities		198,398	1,743,748
Cash flows (used in) from operations		(254,664)	12,455,110
Employees end of service benefits paid		(90,365)	(359,570)
Taxes paid		(661,748)	(103,124)
<b>Net cash flows (used in) from operating activities</b>		<b>(1,006,777)</b>	<b>11,992,416</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale of subsidiary		-	1,400,946
Purchase of associates	15	(10,508,067)	(2,223,429)
Purchase of financial assets at fair value through other comprehensive income		-	(2,657,540)
Purchase of financial assets at fair value through profit & loss		(8,580,489)	-
Proceeds from sale/redemption of financial assets at fair value through profit or loss		501,765	346,235
Proceeds from sale/redemption of associates		1,744,609	66,179
Purchase of investment properties	16	(2,550,000)	(3,904,639)
Proceeds from disposal of investment properties	16	1,970,000	1,900,000
Income received from investment and savings deposits		415,802	314,673
Dividend received		262,102	113,745
Dividend and capital reduction proceed received from associates		862,215	861,759
Purchase of property and equipment	18	(83,333)	(65,999)
Proceeds from disposal of property and equipment		396,878	88,188
Movement in restricted bank balance	13	37,102	(1,158)
<b>Net cash flows used in investing activities</b>		<b>(15,531,416)</b>	<b>(3,761,040)</b>
<b>FINANCING ACTIVITIES</b>			
Payments towards capital reduction		(4,956,984)	(9,177,595)
Finance costs paid		(56,670)	(64,765)
Proceeds from Islamic finance payables		10,000,000	-
Repayment of Islamic finance payables		(145,729)	(2,056,783)
Payment of lease liabilities	24	(1,392,244)	(1,391,590)
Dividends paid to non-controlling interests		(878,264)	(387,879)
Net movement in non-controlling interests		77,403	1,114
Proceeds from sale of treasury shares		-	1,836,244
<b>Net cash flows from (used in) financing activities</b>		<b>2,647,512</b>	<b>(11,241,254)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(13,890,681)</b>	<b>(3,009,878)</b>
Cash and cash equivalents as at 1 January		30,889,086	33,898,964
<b>CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER</b>	13	<b>16,998,405</b>	<b>30,889,086</b>
<b>Non-cash transactions</b>			
Additions to right of use asset	18	1,527,480	5,400
Additions to lease liabilities	24	1,527,480	5,400
Transfer from inventory	18	32,859,651	20,497,750
Transfer to inventory (net of depreciation)	18	(16,179,681)	(11,579,741)

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

## 1 CORPORATE INFORMATION

The consolidated financial statements of A'ayan Leasing and Investment Company K.S.C.P. (the "Parent Company") and Subsidiaries (collectively, the "Group") for the year ended 31 December 2022 was authorised for issue in accordance with a resolution of the Board of Directors on 24 January 2023, and the shareholders have the power to amend these consolidated financial statements at the annual general assembly meeting (AGM).

The Parent Company is a public shareholding company incorporated and domiciled in Kuwait and whose shares are listed on Boursa Kuwait. The Parent Company is regulated by the Central Bank of Kuwait ("CBK") and the Capital Markets Authority ("CMA") as a finance and investment company, respectively.

The Parent Company's head office is located at Mohamad Bin Al Qasim Street, Al Rai 13027, State of Kuwait and its registered postal address is P.O. Box 1426, Safat 13015.

Information on the Group's structure is provided in Note 5. Information on other related party relationships of the Group is provided in Note 27.

## 2 PRINCIPAL ACTIVITIES

The Group principally operates in Kuwait and engages in financial investments, trading properties, investment properties and leasing activities as follows:

- ▶ Provide lease financing product in all its forms and manifestations.
- ▶ Acts as financial intermediary and broker.
- ▶ Engage in activities related to granting of credit facilities to consumers.
- ▶ Participate in establishment of companies of different types and purposes inside and outside the State of Kuwait and dealing in the shares of these companies on its behalf and on behalf of third parties.
- ▶ Represent the foreign companies that are similar in purpose with the purposes of the Parent Company in order to market their products and services including financial benefit of the parties and in accordance with the provisions of the relevant Kuwaiti legislation.
- ▶ Engage in activities relating to investment securities.
- ▶ Portfolio management on behalf of the customers.
- ▶ Investment in real estate property in industrial, agricultural and other sectors.
- ▶ Development of residential land and commercial property for generating rental income.
- ▶ Conducting research and studies and related activities on behalf of customers.
- ▶ Establish investment funds and management of the funds.

The Group carries out its activities in accordance with the principles of Islamic Sharī'a as approved by the Parent Company's Fatwa and Sharī'a Supervisory Board.

## 3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### 3.1 BASIS OF PREPARATION

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

The consolidated financial statements are prepared on a historical cost basis, except for financial assets at fair value through profit or loss and investment properties and leasehold land classified under property and equipment that have been measured at fair value.

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

The Group presents its consolidated statement of financial position in order of liquidity. An analysis in respect of recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 30.

### 3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.1 BASIS OF PREPARATION (continued)

Certain prior year amounts do not correspond with the 2021 consolidated financial statements and reflect adjustments to conform to the current year presentation. Such adjustments do not affect previously reported assets, equity and profit for the year.

#### 3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the adoption of new standards effective as of 1 January 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

##### **Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16**

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments did not have a material impact on the Group.

Several amendments and interpretations apply for the first time in 2022, but do not have an impact on the consolidated financial statements of the Group.

#### 3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

##### **Amendments to IAS 1: Classification of Liabilities as Current or Non-current**

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- ▶ What is meant by a right to defer settlement;
- ▶ That a right to defer must exist at the end of the reporting period;
- ▶ That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- ▶ That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practices and whether existing loan agreements may require renegotiation.

##### **Definition of Accounting Estimates - Amendments to IAS 8**

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the consolidated financial statements of the Group.

Other new or amended standards which are issued but not yet effective, are not relevant to the Group and have no impact on the accounting policies, financials position or performance of the Group.

### 3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### 3.4.1 Basis of consolidation

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

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

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

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

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

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full upon consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

Interest in the equity of subsidiaries not attributable to the Group is reported as non-controlling interest in the consolidated statement of financial position. Non-controlling interest in the acquiree is measured at the proportionate share in the recognised amounts of the acquiree's identifiable net assets. Losses are allocated to the non-controlling interest even if they exceed the non-controlling interest's share of equity in the subsidiary. Transactions with non-controlling interests are treated as transactions with equity owners of the Group. Gains or losses on changes in non-controlling interests without loss of control are recorded in equity.

##### 3.4.2 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in other expenses.

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

**3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**3.4.2 Business combinations and goodwill (continued)**

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in consolidated statement of profit or loss.

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

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

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

**3.4.3 Revenue recognition**

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers. The Group has generally concluded that it is the principal in its revenue arrangements.

*Rental income*

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term.

*Rendering of services*

The Group generate revenue from maintenance services. The performance obligation is satisfied over-time and payment is generally due upon completion of the maintenance services.

*Fee income*

The Group earns fee income from a diverse range of financial services it provides to its customers. Fee income is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Group's revenue contracts do not typically include multiple performance obligations.

When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

*Revenue from sale of real estate*

Income from the sale of real estates is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the asset.

**3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**3.4.3 Revenue recognition (continued)**

*Revenue from sale of real estate (continued)*

The sale of completed property constitutes a single performance obligation and the Group has determined that this is satisfied at the point in time when control transfers. For unconditional exchange of contracts, this generally occurs when legal title transfers to the customer. For conditional exchanges, this generally occurs when all significant conditions are satisfied.

Payments are received when legal title transfers which is usually within six months from the date when contracts are signed.

*Sale of goods*

Revenue from the sale of goods is recognised at the point in time when control of the goods are transferred to the customer, generally on delivery of the goods.

**3.4.4 Finance income and expense**

Finance income and expense are recognised in the consolidated statement of profit or loss for all profit-bearing financial instruments using the effective interest method.

**3.4.5 Dividend distribution**

The Group recognises a liability to pay a dividend when the distribution is no longer at the discretion of the Group. As per the companies law, a distribution is authorised when it is approved by the shareholders at the annual general assembly meeting ("AGM"). A corresponding amount is recognised directly in equity.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

**3.4.6 Dividend income**

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

**3.4.7 Taxes**

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

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

*National Labour Support Tax*

NLST is calculated at 2.5% of the profit for the year attributable to the Parent Company in accordance with Law No. 19 of 2000 and the Ministry of Finance resolutions No. 24 of 2006.

*Zakat*

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

*Taxation on overseas subsidiaries*

Taxation on overseas subsidiaries is provided in accordance with fiscal regulations applicable to each country of operation.

**3.4.8 Cash and cash equivalents**

Cash and cash equivalents in the consolidated statement of financial position comprise cash on hand, cash at banks, cash held in investment portfolios and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts (if any) and restricted balances as they are considered an integral part of the Group's cash management.



**3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**3.4.9 Financial instruments - initial recognition, subsequent measurement, derecognition and impairment**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

*i) Financial assets*

**Initial recognition and initial measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

**Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified in four categories:

- ▶ Financial assets at amortised cost (debt instruments)
- ▶ Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- ▶ Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- ▶ Financial assets at fair value through profit or loss

*a) Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

*b) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes certain equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

**3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**3.4.9 Financial instruments - initial recognition, subsequent measurement, derecognition and impairment (continued)**

*i) Financial assets (continued)*

**Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

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

**Impairment of financial assets**

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss as follows:

- ▶ Trade and other receivables, including contract assets
- ▶ Financial assets measured at amortised cost (credit facilities)

Equity investments are not subject to ECLs. Further, the Group has no debt investments measured at FVOCI.

*Impairment of financial assets other than credit facilities*

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

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)****3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.4.9 Financial instruments - initial recognition, subsequent measurement, derecognition and impairment (continued)****i) Financial assets (continued)****Impairment of financial assets (continued)***Impairment of credit facilities*

Credit facilities granted by the Group consist of loans and advances. Impairment on credit facilities shall be recognised in the consolidated statement of financial position at an amount equal to the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

**Provisions for credit losses in accordance with the CBK instructions**

The Group is required to calculate provisions for credit losses on credit facilities in accordance with the CBK instructions with respect to credit facilities and the calculation of provisions. Credit facilities are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A credit facility is classified as past due and impaired when the interest or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value. Past due and past due and impaired loans are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions:

Category	Criteria	Specific provision
Watch list	Irregular for a period up to 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances.

Minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning.

**ii) Financial liabilities****Initial recognition and measurement**

The Group's financial liabilities include trade and other payables and loans and borrowings including bank overdrafts.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

**Subsequent measurement**

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- ▶ Financial liabilities at fair value through profit or loss
- ▶ Financial liabilities at amortised cost (including Islamic finance payables)

The Group has not designated any financial liability as at fair value through profit or loss and financial liabilities at amortised cost is more relevant to the Group.

**Financial liabilities at amortised cost***Islamic finance payables*

After initial recognition, profit-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss.

**3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**3.4.9 Financial instruments - initial recognition, subsequent measurement, derecognition and impairment (continued)**

**ii) Financial liabilities (continued)**

*Accounts payable and accruals*

Accounts payable and accruals are recognised for amounts to be paid in the future for services received, whether billed by the supplier or not.

**Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

**iii) Offsetting of financial instruments**

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

**3.4.10 Fair value measurement**

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

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

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

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

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

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

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

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

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

**3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**3.4.11 Investment in associates**

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

The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

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

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

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

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

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

**3.4.12 Investment properties**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of profit or loss in the period in which they arise. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying appropriate valuation models.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

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

Transfer from properties under development are made upon completion of the work and the property being ready for its intended use at carrying value and subsequently fair valued at reporting date.

**3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**3.4.13 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is the weighted average cost and includes those expenses incurred in bringing each product to its present location and condition. Net realisable value is estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

**3.4.14 Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Leasehold lands are measured at fair value less accumulated depreciation and impairment losses recognised after the date of revaluation. Valuation is performed every year to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in consolidated statement of profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the consolidated statement of statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

On disposal the related revaluation surplus is credited directly to retained earnings.

Depreciation is calculated on a straight-line basis over the estimated useful lives of assets as follows:

► Buildings	20-40 years
► Furniture and fixtures	3-5 years
► Tools and office equipment	3-5 years
► Motor vehicles	1-4 years
► Leased motor vehicles	over lease term

For accounting policy relating to recognition and depreciation of right-of-use assets, refer to 'Leases' accounting policy.

When the leased motor vehicles are subsequently held for sale, typically after the end of the rental contract, they are transferred to inventories at the net realisable value as on the date of transfer.

Capital work-in-progress is stated at cost. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Following completion, capital work-in-progress is transferred into the relevant classification of property, plant and equipment.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written-off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated statement of profit or loss as the expense is incurred.

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

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

**3.4.15 Leases**

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

**3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**3.4.15 Leases (continued)**

*Group as a lessee (continued)*

*i) Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and are adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are presented under 'property and equipment' in the consolidated statement of financial position and are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset, as follows:

- |                    |           |
|--------------------|-----------|
| ▶ Buildings        | 3-5 years |
| ▶ Leasehold rights | 4 years   |

The right-of-use assets are also subject to impairment. Refer to the accounting policy in section 'Impairment of non-financial assets'.

*ii) Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in 'other liabilities' in the consolidated statement of financial position.

*iii) Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

*Group as a lessor*

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

**3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**3.4.16 Impairment of non-financial assets**

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

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

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

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

Goodwill is tested for impairment annually as at the reporting date and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

**3.4.17 Employees end of service benefits**

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

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

**3.4.18 Provisions**

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



**3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**3.4.18 Provisions (continued)**

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

**3.4.19 Contingencies**

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

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

**3.4.20 Foreign currencies**

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

*Transactions and balances*

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

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

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

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

*Group companies*

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

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

**3.4.21 Fiduciary assets**

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

**3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**3.4.22 Segment information**

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs cost. The operating segments used by the management of the Group to allocate resources and assess performance are consistent with the internal report provided to the chief operating decision maker. Operating segment exhibiting similar economic characteristic, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

**4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

**4.1 Significant judgments**

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

***Determining the lease term of contracts with renewal and termination options – Group as lessee***

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group included the renewal period as part of the lease term for leases with shorter non-cancellable period (i.e., three to five years). Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

***Operating lease commitments–Group as lessor***

The Group has entered into commercial property leases on its investment property portfolio and commercial operating leases on its motor vehicle fleet portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and fleet, and accordingly accounts for the contracts as operating leases.

***Classification of financial assets***

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

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

**4.1 Significant judgments (continued)**

***Classification of real estate 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.

***Contingencies***

Contingent assets and liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of inflow or outflow respectively of resources embodying economic benefits is remote, which requires significant judgement.

***Consolidation of entities in which the Group holds less than a majority of voting right (de facto control)***

The Group considers that it controls Mubarrad Holding Company K.S.C.P. ("Mubarrad") even though it owns less than 50% of the voting rights. This is because the Group is the single largest shareholder of Mubarrad with a 41.3% equity interest. The remaining 58.7% of the equity shares in Mubarrad are held by many other shareholders who, individually, in view of the management has widely dispersed shareholding. Furthermore, the Parent Company has a majority representation on the board of directors of Mubarrad.

***Classification of entities as associates in which the Group holds less than 20% of the voting rights***

The Group considers that it exerts significant influence over A'ayan Real Estate Company K.S.C.P. ("AREC") even though it owns less than 20% of the voting rights through its collective voting rights, its nominated directors' active participation on AREC's board of directors and decision making over operations in accordance with IAS 28: Investments in Associates and Joint Ventures.

**4.2 Estimates and assumptions**

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

***Impairment of associates***

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

***Useful lives of depreciable assets***

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

***Impairment of leasehold rights***

The carrying amounts of the leasehold rights are reviewed at each reporting date to determine whether there is any indication or objective evidence of impairment or when annual impairment testing for an asset is required. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment is recognised in the consolidated statement of profit or loss whenever the carrying amount of an asset exceeds its recoverable amount. The management assesses the leasehold rights for impairment based on market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

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

**4.2 Estimates and assumptions (continued)**

***Impairment of property and equipment***

A decline in the value of property and equipment could have a significant effect on the amounts recognised in the consolidated financial statements. Management assesses the impairment of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could trigger an impairment review include the following:

- ▶ significant decline in the market value beyond that which would be expected from the passage of time or normal use;
- ▶ significant changes in the technology and regulatory environments;
- ▶ evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

***Valuation of investment properties***

The fair value of investment properties is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS 13 Fair Value Measurement.

Investment properties under construction are measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in Note 16.

***Provision for expected credit losses of trade receivables***

The Group assesses, on a forward-looking basis, the ECLs associated with its debt instruments carried at amortised cost (other than credit facilities). The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

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

***Impairment losses on financing receivables – as per CBK guidelines***

The Group reviews its financing receivables on a regular basis to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required.

Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

***Valuation of unquoted equity investments***

Valuation of unquoted equity investments is normally based on one of the following:

- ▶ Recent arm's length market transactions;
- ▶ Current fair value of another instrument that is substantially the same;
- ▶ An earnings multiple;
- ▶ The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- ▶ Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined. As a result, these investments are carried at cost less impairment.

**4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)****4.2 Estimates and assumptions (continued)*****Leases - Estimating the incremental borrowing rate***

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

***Revaluation of leasehold land***

The Group measures leasehold land at revalued amount with changes in fair value being recognised in other comprehensive income. The Group engaged an independent valuation specialist to assess fair value at the reporting date. Leasehold land was valued by reference to market based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

**5 GROUP INFORMATION**

The consolidated financial statements of the Group include:

<i>Name of subsidiary</i>	<i>Country of incorporation</i>	<i>% equity interest</i>		<i>Principal activities</i>
		<i>2022</i>	<i>2021</i>	
Mubarad Holding Company K.S.C.P. ("Mubarrad") <sup>1</sup>	Kuwait	<b>41.3%</b>	41.9%	Trading and renting heavy vehicles
A'ayan Leasing Holding Company K.S.C. (Holding) ("ALH")	Kuwait	<b>100%</b>	100%	Leasing activities
East Gate Real Estate Company S.P.C.	Kuwait	<b>100%</b>	100%	Real estate
Jahraa Mall – JV	Kuwait	<b>77.1%</b>	77.1%	Real estate

<sup>1</sup> The Group's ownership interest in Mubarrad has less than 50% of the equity of Mubarrad. However, the management determined that it still controls the investee because the Group continues to hold the majority of the voting rights in view of the widely dispersed shareholding structure and the absence of evidence of minority shareholder acting in concert. The Group also holds the majority of the seats on the BOD, and accordingly, considers that it exercises de facto control over Mubarrad, based on IFRS 10: Consolidated Financial Statements criteria analysis.

**Material partly owned subsidiary:**

The Group had concluded that Mubarrad as the only subsidiary with non-controlling interests that is material to the consolidated financial statements.

Financial information of subsidiary that have material non-controlling interests are provided below:

**Proportion of equity interest held by non-controlling interest:**

	<i>2022</i>	<i>2021</i>
Mubarad Holding Company K.S.C.P.	<b>58.7%</b>	58.1%

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

	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
Mubarad Holding Company K.S.C.P.	<b>12,060,871</b>	12,516,720

# A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

### 5 GROUP INFORMATION (continued)

#### Material partly owned subsidiary (continued):

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

	2022 KD	2021 KD
Mubarak Holding Company K.S.C.P.	889,143	964,914

Summarised financial information of is subsidiary is provided below. This information is based on amounts before eliminating intra group transactions and consolidation related adjustments.

	2022 KD	2021 KD
<i>Summarised statement of profit or loss</i>		
Income	2,184,143	2,472,678
Expenses	(582,935)	(678,249)
Profit for the year	1,601,208	1,794,429
Other comprehensive loss for the year	(1,652,340)	(5,422)
	2022 KD	2021 KD
<i>Summarised statement of financial position</i>		
Total assets	23,247,995	24,514,524
Total liabilities	2,617,779	2,874,946
Total equity	20,630,216	21,639,578
	2022 KD	2021 KD
<i>Summarised cash flow information</i>		
Operating	856,907	2,641,731
Investing	2,308,476	1,541,849
Financing	(1,310,575)	(598,035)
Net increase in cash and cash equivalents	1,854,808	3,585,545

### 6 INCOME FROM LEASING OPERATIONS

	2022 KD	2021 KD
Operating lease rental income	18,231,373	16,270,178
Service, maintenance, and other income	1,056,034	1,135,374
Gain on disposal of motor vehicles	3,702,619	2,674,609
	22,990,026	20,080,161
Less: depreciation of motor vehicles (Note 18)	(8,187,860)	(7,529,787)
Less: maintenance and other expenses	(2,117,036)	(1,935,419)
	12,685,130	10,614,955

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

**7 REAL ESTATE INCOME**

	<b>2022</b>	<b>2021</b>
	<b>KD</b>	<b>KD</b>
Gain on sale of investment properties (Note 16)	<b>58,130</b>	500,000
Valuation losses from investment properties (Note 16)	<b>(44,384)</b>	(63,500)
Rental income from investment properties	<b>3,443,755</b>	2,935,733
Rental income from leasehold rights	<b>3,055,411</b>	2,916,785
Depreciation of right-of-use assets relating to leasehold rights (Note 18)	<b>(1,157,440)</b>	(1,081,196)
Amortisation of a leasehold rights (Note 19)	<b>(943,759)</b>	(1,331,756)
Finance costs on lease liabilities (Note 24)	<b>(51,004)</b>	(62,823)
Real estate related expenses	<b>(478,190)</b>	(477,631)
	<b>3,882,519</b>	3,335,612

**8 NET INCOME FROM INVESTMENTS AND SAVING DEPOSITS**

	<b>2022</b>	<b>2021</b>
	<b>KD</b>	<b>KD</b>
Investment deposits and savings profits	<b>415,802</b>	314,673
Dividend income	<b>262,102</b>	113,745
Gain on disposal of investment in associates	<b>295,771</b>	-
Net gain from financial assets at FVTPL	<b>(357,314)</b>	(141,676)
	<b>616,361</b>	286,742

**9 OTHER INCOME**

	<b>2022</b>	<b>2021</b>
	<b>KD</b>	<b>KD</b>
Gain on disposal of investment in associates	-	1,278,324
Proceed from fully impaired Investments in associate	<b>182,950</b>	66,179
Gain on disposal of property and equipment	<b>358,738</b>	31,950
Other income	<b>281,138</b>	260,893
	<b>822,826</b>	1,637,346

**10 NET IMPAIRMENT LOSSES, EXPECTED CREDIT LOSSES AND PROVISIONS**

	<b>2022</b>	<b>2021</b>
	<b>KD</b>	<b>KD</b>
Reversal of provision for impairment of Islamic finance receivables (Note 14)	<b>(86,953)</b>	(104,351)
Reversal of impairment losses on other assets (Note 17)	<b>(34,965)</b>	(71,740)
ECL on trade receivables (Note 17)	<b>277,959</b>	214,902
Reversal of excess provision no longer required	-	(1,586,054)
Provision no longer required	-	(529,048)
Allowance for provision for legal cases	-	4,313,316
	<b>156,041</b>	2,237,025

**11 OTHER EXPENSES**

	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
Premises expenses	<b>433,406</b>	444,875
Legal and professional fees	<b>544,395</b>	945,696
Marketing and advertising expenses	<b>385,306</b>	191,542
BOD remuneration of subsidiaries	<b>55,000</b>	55,000
Other miscellaneous expenses	<b>523,728</b>	465,651
	<b>1,941,835</b>	2,102,764

**12 EARNINGS PER SHARE (EPS)**

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

	<i>2022</i>	<i>2021</i>
Profit for the year attributable to the equity holders of the Parent Company (KD)	<b>9,002,288</b>	6,099,104
Weighted average number of shares outstanding during the year (shares) *	<b>682,805,947</b>	740,408,706
<b>Basic and diluted earnings per share attributable to the equity holders of the Parent Company (fils)</b>	<b>13.18</b>	8.24

\* The weighted average number of shares takes into account the reduction in shares capital and the weighted average effect of changes in treasury shares during the prior year.

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

**13 CASH AND CASH EQUIVALENTS**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
Cash at banks and on hand	<b>7,183,061</b>	7,982,199
Short-term placements with financial institutions	<b>9,831,355</b>	22,960,000
<b>Cash and short-term deposits</b>	<b>17,014,416</b>	30,942,199
Less: restricted balances	<b>(16,011)</b>	(53,113)
<b>Cash and cash equivalents</b>	<b>16,998,405</b>	30,889,086

Short-term deposits are made for varying periods and can be early terminated on demand, depending on the immediate cash requirements of the Group, and earn average returns at the respective short-term deposit rates ranging from 1% to 5% (2021: 0.75% to 2%) per annum.

Cash and cash equivalents amounting to KD 191,188 (2021: KD 479,610) is maintained with one of the major shareholder (Note 27).



**14 ISLAMIC FINANCE RECEIVABLES**

	<i>Musawama KD</i>	<i>Ijara KD</i>	<i>Tawaruq KD</i>	<i>Total KD</i>
<b>2022</b>				
Gross receivables	<b>4,976,800</b>	<b>2,046,391</b>	<b>1,101,634</b>	<b>8,124,825</b>
Less: deferred income	<b>(844,592)</b>	<b>(327,227)</b>	<b>(94,711)</b>	<b>(1,266,530)</b>
	<b>4,132,208</b>	<b>1,719,164</b>	<b>1,006,923</b>	<b>6,858,295</b>
Less: impairment losses				
- General	-	-	-	-
- Specific	<b>4,132,208</b>	<b>1,719,164</b>	<b>1,006,923</b>	<b>6,858,295</b>
	-	-	-	-
Gross amount of credit facilities individually determined to be impaired	<b>4,976,800</b>	<b>2,046,391</b>	<b>1,101,634</b>	<b>8,124,825</b>
<b>2021</b>				
Gross receivables	5,062,756	2,066,194	1,101,634	8,230,584
Less: deferred income	(859,987)	(330,638)	(94,711)	(1,285,336)
	4,202,769	1,735,556	1,006,923	6,945,248
Less: impairment losses				
- General	-	-	-	-
- Specific	4,202,769	1,735,556	1,006,923	6,945,248
	-	-	-	-
Gross amount of credit facilities individually determined to be impaired	5,062,756	2,066,194	1,101,634	8,230,584

Expected credit losses on credit facilities determined computed under IFRS 9 in accordance with CBK guidelines amounted to KD 6,858,295 as at 31 December 2022 (2021: KD 6,945,248), which is same as the provision required by CBK instructions. As a result, no additional provision has been made.

Set out below is the movement in the provision for impairment of Islamic finance receivables as per CBK instructions during the year:

	<i>General</i>		<i>Specific</i>		<i>Total</i>	
	<i>2022 KD</i>	<i>2021 KD</i>	<i>2022 KD</i>	<i>2021 KD</i>	<i>2022 KD</i>	<i>2021 KD</i>
As at 1 January	-	-	<b>6,945,248</b>	7,049,599	<b>6,945,248</b>	7,049,599
Net reversals during the year (Note 10)	-	-	<b>(86,953)</b>	(104,351)	<b>(86,953)</b>	(104,351)
As at 31 December	-	-	<b>6,858,295</b>	6,945,248	<b>6,858,295</b>	6,945,248

# A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 15 INVESTMENT IN ASSOCIATES

The principal associates of the Group are as follows:

Name of associate	Country of incorporation	% equity interest		Principal activities	Carrying amount	
		2022	2021		2022 KD	2021 KD
Oman Integral Logistics Company O.S.C.C ("Oman Integral") <sup>1</sup>	Oman	50%	50%	Logistics	3,758,102	3,733,153
A'ayan Real Estate Company K.S.C.P. ("AREC") <sup>2</sup>	Kuwait	9.8%	15.1%	Real estate	2,313,851	3,235,033
Tawazun Holding Company K.S.C (Closed) ("Tawazun") <sup>3</sup>	Kuwait	43.8%	14.8%	Holding Company	13,853,918	4,007,129

<sup>1</sup> Included in the carrying amount of the investment in the associate is goodwill of KD 112,822 (2021: KD 112,822).

<sup>2</sup> The Group management has determined that it exerts significant influence over the investee through both its collective voting rights and its nominated directors' active participation on AREC's BOD. As a result, the Group has accounted for interest in AREC i.e. 9.8% for the year ended 31 December 2022 (31 December 2021: 15.1%) as an investment in associate using the equity method of accounting in accordance with IAS 28: Investments in Associates and Joint Ventures. The Group's equity interest in AREC, for the year ended 31 December 2022, decreased to 9.8%, being a net decrease resulting from disposal of shares with a carrying value of KD 1,265,888 for a consideration of KD 1,561,659 for a profit of KD 295,771 (Note 8).

<sup>3</sup> During the year, Tawazun, completed its capital reduction thus writing off its accumulated losses against share capital and reserves and by settling the balance amount to its existing shareholders and reducing the outstanding number of shares at par value. The Parent Company received its portion out of capital reduction of KD 738,322. Out of which KD 1,532 is to be received and recorded under other assets. Furthermore, the Group's equity interest in Tawazun increased to 43.8%, being a net increase resulting from purchase of additional shares for a consideration of KD 10,508,067.

	2022 KD	2021 KD
<b>Group's share of total comprehensive income</b>		
Revenue	9,333,611	2,221,927
Share of profit (loss)	821,953	(1,392,564)
Share of other comprehensive loss	(280,063)	(19,123)

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

Reconciliation to carrying amounts	2022 KD	2021 KD
As at 1 January	11,141,315	8,497,741
Additions	10,508,067	2,223,429
Reclassification from financial asset at FVOCI (Note 32)	-	3,551,980
Share of results	821,953	(1,392,564)
Share of other comprehensive income	(280,063)	(19,123)
Dividend received from associates	(125,425)	(122,768)
Capital reduction received from associates	(738,322)	(738,991)
Sale of associates	(1,265,888)	(816,581)
Foreign currency translation adjustments	30,234	(41,808)
<b>As at 31 December</b>	<b>20,091,871</b>	<b>11,141,315</b>

### Summarised financial information for associates

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

**15 INVESTMENT IN ASSOCIATES (continued)**

<b>2022</b>	<b>AREC KD</b>	<b>Tawazun KD</b>	<b>Oman Integral KD</b>
Total assets	93,259,704	70,334,151	10,573,317
Total liabilities and non-controlling interests	(32,734,210)	(1,359,784)	(3,282,757)
Equity attributable to Parent Company	60,525,494	68,974,367	7,290,560
Contingent liabilities and commitments	27,554	-	-
<b>2022</b>	<b>AREC KD</b>	<b>Tawazun KD</b>	<b>Oman Integral KD</b>
Profit	2,487,695	1,826,739	209,361
Other comprehensive loss	(304,681)	(694,397)	-
<b>Total comprehensive income</b>	<b>2,183,014</b>	<b>1,132,342</b>	<b>209,361</b>
<b>2021</b>	<b>AREC KD</b>	<b>Tawazun KD</b>	<b>Oman Integral KD</b>
Total assets	97,038,030	73,902,126	10,508,942
Total liabilities and non-controlling interests	(38,708,120)	(1,026,841)	(3,268,285)
Equity attributable to Parent Company	58,329,910	72,875,285	7,240,657
Contingent liabilities and commitments	46,470	-	-
<b>2021</b>	<b>AREC KD</b>	<b>Tawazun KD</b>	<b>Oman Integral KD</b>
(Loss) profit	(776,863)	(1,392,098)	537,939
Other comprehensive loss	(79,716)	(36,849)	-
<b>Total comprehensive (loss) income</b>	<b>(856,579)</b>	<b>(1,428,947)</b>	<b>537,939</b>

The fair value of one of the associates is KD 3,144,810 (2021: KD 5,455,354), which is higher than its carrying value. The fair value of the remaining associates is not readily available since it is not listed in the stock market.

**16 INVESTMENT PROPERTIES**

	<b>2022</b> <b>KD</b>	<b>2021</b> <b>KD</b>
As at 1 January	<b>32,000,157</b>	29,553,724
Additions	<b>2,550,000</b>	3,904,639
Disposals	<b>(1,911,870)</b>	(1,400,000)
Valuation losses from investment properties (Note 7)	<b>(44,384)</b>	(63,500)
Exchange differences	<b>(1,377,702)</b>	5,294
As at 31 December	<b>31,216,201</b>	32,000,157

Investment properties held by the group are developed properties located in Kuwait, Kingdom of Saudi Arabia and Egypt.

During the current year, the Group has sold investment properties with an aggregate carrying value of KD 1,911,870 (2021: KD 1,400,000) for a total cash consideration of KD 1,970,000 (2021: KD 1,900,000) resulting in a gain on sale amounting to KD 58,130 (2021: KD 500,000) recognised in the consolidated statement of profit or loss under real estate income (Note 7).

Investment properties with a carrying value of KD 6,250,000 (2021: KD 6,250,000) have been pledged as a collateral for Islamic finance payables. (Note 23).

The fair value of investment properties is determined based on valuations performed by independent and accredited valuers with recognised and relevant professional qualification and with recent experience in locations and categories of investment properties being valued. The valuation models applied are consistent with the principles in IFRS 13 and fair value is determined using a mix of the income capitalisation method and the market comparison approach considering the nature and usage of each property. Fair value using the income capitalisation method, under the Level 3 fair value hierarchy, is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. Under the market comparison approach, fair value is estimated based on comparable transactions, and is measured Level 2 fair value hierarchy. The unit of comparison applied by the Group is the price per square meter ('sqm').

The Group classifies its investment properties as level 2 and level 3 in the fair value measurement hierarchy.

Amounts recognised in the consolidated statement of profit or loss for investment properties are as follows:

	<b>2022</b> <b>KD</b>	<b>2021</b> <b>KD</b>
Change in fair value of investment properties (Note 7)	<b>(44,384)</b>	(63,500)
Gain on sale of investment properties (Note 7)	<b>58,130</b>	500,000
Rental revenues (Note 7)	<b>3,443,755</b>	2,935,733
Real Estate related expenses (Note 7)	<b>(478,190)</b>	(477,631)

The fair value hierarchy for the investment properties are as follow:

	<b>2022</b> <b>KD</b>	<b>2021</b> <b>KD</b>
Significant observable inputs (Level 2 "Market approach")	<b>2,479,945</b>	3,857,647
Significant unobservable inputs (Level 3 "Income capitalisation approach")	<b>28,736,256</b>	28,142,510
	<b>31,216,201</b>	32,000,157

**16 INVESTMENT PROPERTIES (continued)**

The sensitivity analysis for Level 2 and Level 3 input are as follows:

**a) Level 2 “Market Approach”**

	2022	2021
Estimated market price (per sqm) (KD)	<b>389</b>	606

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation:

	<i>Changes in valuation assumptions</i>	<i>Impact on profit for the year</i>	
		2022 KD	2021 KD
Estimated market price (per sqm) (KD)	+ 5%	<b>123,997</b>	192,882

**b) Level 3 “Income Capitalisation Approach”**

	2022	2021
Average monthly rent (per sqm) (KD)	<b>17.94</b>	17.08
Average yield rate	<b>11.20%</b>	10.70%
Occupancy rate	<b>100.00%</b>	100.00%

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation:

	<i>Changes in valuation assumptions</i>	<i>Impact on profit for the year</i>	
		2022 KD	2021 KD
Average monthly rent (per sqm)	+ 5%	<b>1,436,803</b>	1,406,981
Average yield rate	- 5%	<b>(1,380,840)</b>	(1,327,503)
Occupancy rate	- 5%	<b>(1,396,578)</b>	(1,362,331)

**Reconciliation of Level 3 fair values**

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

	2022 KD	2021 KD
As at 1 January	<b>28,142,510</b>	25,701,371
Additions	<b>2,550,000</b>	3,904,639
Disposals	<b>(1,911,870)</b>	(1,400,000)
Remeasurements recognized in profit or loss	<b>(44,384)</b>	(63,500)
As at 31 December	<b>28,736,256</b>	28,142,510

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 17 OTHER ASSETS

	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
Trade receivables, net	<b>2,546,806</b>	2,259,839
Prepaid expenses	<b>1,139,212</b>	889,056
Amounts due from related parties (Note 27)	<b>171,925</b>	211,719
Advances for investment securities and to suppliers	<b>1,390,889</b>	152,904
Inventories	<b>4,591,847</b>	2,721,895
Refundable deposits	<b>1,052,992</b>	627,855
Dividend receivables	<b>3,466</b>	3,149
Other receivables, net	<b>534,150</b>	912,714
	<b>11,431,287</b>	7,779,131

As at 31 December 2022, the Group's carrying amount of trade receivables is net of an allowance for expected credit losses of KD 8,268,908 (2021: KD 7,999,851), Amounts due from related parties is net of an allowance for expected credit losses of KD 381,222 (2021: KD 381,222) and other assets is net of an allowance for expected credit losses of KD 4,990,946 (2021: KD 5,051,277).

Set out below is the movement in the allowance for expected credit losses of trade receivables, amount due from related parties and provision for impairment of other assets:

	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
As at 1 January	<b>13,432,350</b>	13,956,573
Reversal of other assets (Note 10)	<b>(34,965)</b>	(71,740)
Allowance for expected credit losses (ECL) on trade receivables (Note 10)	<b>277,959</b>	214,902
Write-offs	<b>(34,268)</b>	(667,385)
As at 31 December	<b>13,641,076</b>	13,432,350

## A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

## 18 PROPERTY AND EQUIPMENT

	<i>Leasehold lands KD</i>	<i>Buildings KD</i>	<i>Furniture and fixtures KD</i>	<i>Tools and office equipment KD</i>	<i>Motor vehicles KD</i>	<i>Leased motor vehicles KD</i>	<i>Right-of- use asset KD</i>	<i>Total KD</i>
<b>Cost and valuation</b>								
As at 1 January 2022	11,681,000	2,660,853	582,609	3,737,507	1,544,225	46,800,326	5,043,498	72,050,018
Additions	-	-	20,778	62,555	-	-	1,527,480	1,610,813
Transfer from inventory	-	-	-	-	293,564	32,566,087	-	32,859,651
Transfer to inventory	-	-	-	-	(152,691)	(22,808,213)	-	(22,960,904)
Disposals	-	-	-	(854,758)	-	-	-	(854,758)
<b>As at 31 December 2022</b>	<b>11,681,000</b>	<b>2,660,853</b>	<b>603,387</b>	<b>2,945,304</b>	<b>1,685,098</b>	<b>56,558,200</b>	<b>6,570,978</b>	<b>82,704,820</b>
<b>Depreciation and impairment</b>								
As at 1 January 2022	-	389,918	556,800	3,628,985	1,275,882	9,588,563	3,823,192	19,263,340
Depreciation charge for the year	-	101,952	15,967	38,568	80,895	8,106,965	1,388,389	9,732,736
Transfer to inventory	-	-	-	-	(48,389)	(6,732,834)	-	(6,781,223)
Disposals	-	-	-	(816,618)	-	-	-	(816,618)
<b>As at 31 December 2022</b>	<b>-</b>	<b>491,870</b>	<b>572,767</b>	<b>2,850,935</b>	<b>1,308,388</b>	<b>10,962,694</b>	<b>5,211,581</b>	<b>21,398,235</b>
<b>Net book value</b>								
<b>As at 31 December 2022</b>	<b>11,681,000</b>	<b>2,168,983</b>	<b>30,620</b>	<b>94,369</b>	<b>376,710</b>	<b>45,595,506</b>	<b>1,359,397</b>	<b>61,306,585</b>

# A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 18 PROPERTY AND EQUIPMENT (continued)

	<i>Leasehold lands KD</i>	<i>Buildings KD</i>	<i>Furniture and fixtures KD</i>	<i>Tools and office equipment KD</i>	<i>Motor vehicles KD</i>	<i>Leased motor vehicles KD</i>	<i>Right-of- use asset KD</i>	<i>Total KD</i>
Cost and valuation								
As at 1 January 2021	11,681,000	2,660,853	575,084	3,889,346	1,535,527	46,024,146	5,038,098	71,404,054
Additions	-	-	7,525	58,474	-	-	5,400	71,399
Transfer from inventory	-	-	-	-	189,453	20,308,297	-	20,497,750
Transfer	-	-	-	-	(180,755)	180,755	-	-
Transfer to inventory	-	-	-	-	-	(19,712,872)	-	(19,712,872)
Disposals	-	-	-	(210,313)	-	-	-	(210,313)
As at 31 December 2021	11,681,000	2,660,853	582,609	3,737,507	1,544,225	46,800,326	5,043,498	72,050,018
Depreciation and impairment								
As at 1 January 2021	-	274,660	550,874	3,754,991	1,307,648	10,160,141	2,515,078	18,563,392
Depreciation charge for the year	-	115,258	5,926	28,069	71,571	7,458,216	1,308,114	8,987,154
Transfer	-	-	-	-	(103,337)	103,337	-	-
Transfer to inventory	-	-	-	-	-	(8,133,131)	-	(8,133,131)
Disposals	-	-	-	(154,075)	-	-	-	(154,075)
As at 31 December 2021	-	389,918	556,800	3,628,985	1,275,882	9,588,563	3,823,192	19,263,340
Net book value								
As at 31 December 2021	11,681,000	2,270,935	25,809	108,522	268,343	37,211,763	1,220,306	52,786,678



# A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 18 PROPERTY AND EQUIPMENT (continued)

#### *Operating lease commitments – Group as a lessor*

The Group has entered into commercial leases for its motor vehicles fleet in the normal course of business. Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2022 KD	2021 KD
Within one year	12,474,282	9,772,489
After one year but not more than five years	7,312,240	5,299,431
	<u>19,786,522</u>	<u>15,071,920</u>

The depreciation charge for the year has been allocated in the consolidated statement of profit or loss as follows:

	2022 KD	2021 KD
Depreciation of motor vehicles (Note 6)	8,187,860	7,529,787
Depreciation expense of right-of-use asset relating to leasehold rights (Note 7)	1,157,440	1,081,196
Depreciation expense of right-of-use assets (included with depreciation expense in the consolidated statement of profit or loss)	230,949	226,918
Depreciation expense included in the consolidated statement of profit or loss	156,487	149,253
	<u>9,732,736</u>	<u>8,987,154</u>

#### *Revaluation of leasehold lands*

Notwithstanding the contractual term of the leases, management considers that, the agreements of leasehold land are renewable indefinitely, at similar nominal rates of ground rent, and with no premium payable for renewal of the lease and, consequently, as is common practice in Kuwait these leases have been accounted for as leasehold land. Leasehold lands are recognised at fair value using the market comparable approach. During the current year, the fair valuation was conducted by two independent appraisers with a recognised and relevant professional qualification and recent experience of the location and category of leasehold land being valued. The change in fair value was calculated based on the lower of the two values and does not differ materially from its fair value. Under the market comparable approach, the property's fair value is estimated based on comparable transactions. The market comparable approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. The unit of comparison applied by the Group is the price per square metre (sqm). The significant assumption used in the determination of fair value was the market price (per sqm). A decrease of 5% (2021: 5%) in the estimated market price (per sqm) will reduce the value by KD 584,050 (2021: KD 584,050). The fair value was determined based on sales comparison method and is measured under the Level 2 fair value hierarchy .

#### **Significant unobservable valuation input**

Price per square metre

#### **Range**

KD 750 – KD 1,350

### 19 LEASEHOLD RIGHTS

	2022 KD	2021 KD
As at 1 January	1,444,870	2,776,626
Amortisation (Note 7)	(943,759)	(1,331,756)
	<u>501,111</u>	<u>1,444,870</u>

**19 LEASEHOLD RIGHTS (continued)**

Leasehold rights represents the Group's investment in a real estate project. Leasehold rights is amortised over the remaining lease term expiring on September 2023 and is stated at cost net of accumulated amortisation and accumulated impairment losses, if any. Leasehold rights was capitalised in February 2017 after receiving the notification of commencement of operations.

**20 SHARE CAPITAL**

	<i>Number of shares</i>		<i>Authorised, issued and fully paid</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
			<i>KD</i>	<i>KD</i>
Shares of 100 fils each (paid in cash)	<b>664,038,824</b>	714,038,824	<b>66,403,882</b>	71,403,882

In the extraordinary general meeting ("EGM") held on 6 April 2022, the shareholders had approved the partial reduction in share capital amounting to KD 5,000,000 from KD 71,403,882 to KD 66,403,882 (50,000,000 shares from 714,038,824 shares to 664,038,824 shares at 100 fils each) proposed by the BOD in their meeting held on 6 February 2022, by way of cash distribution to the shareholders pro-rated to their shareholding in the Parent Company. The effective date of the reduction is 15 May 2022 being the maturity date as stated and instructed in the commercial register of the Parent Company.

**21 RESERVES AND PROPOSED DIVIDEND****Statutory reserve**

In accordance with the Companies' Law, and the Parent Company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before tax and directors' remuneration shall be transferred to the statutory reserve based on the recommendation of the Parent Company's board of directors. The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital. During the year, KD 935,540 was transferred to statutory reserve.

**General reserve**

- No transfers were made to the general reserve during the year.

**Proposed dividend**

The Board of Directors of the Parent Company has proposed a cash dividend of 7.5% for the year ended 31 December 2022 (2021: Nil) of the paid up share capital. This proposal is subject to the approval of the ordinary general assembly of the shareholders of the Parent Company and requisite consent of the relevant authorities.

**22 ASSET REVALUATION SURPLUS**

The revaluation surplus is used to record increments and decrements on the revaluation of the Group's leasehold land (classified within property and equipment). In the event of a sale of an asset, any balance in the reserve in relation to the asset is transferred to retained earnings.

# A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 23 ISLAMIC FINANCE PAYABLES AND DEBT SETTLEMENT

	2022 KD	2021 KD
Relating to the Parent Company <sup>1</sup>	2,952,189	2,952,112
Relating to subsidiaries <sup>2</sup>	11,508,537	1,619,129
	<u>14,460,726</u>	<u>4,571,241</u>

<sup>1</sup> During the prior year, Islamic finance payables of the Parent Company have become unsecured and collaterals in the form of investment properties, investment in an associate and shares of certain consolidated subsidiaries were released.

<sup>2</sup> Islamic finance payables relating to the one of the subsidiaries of the Group include KD 1,473,400 (2021: KD 1,619,129) are secured against collaterals in the form of investment properties amounting to KD 6,250,000 (2021: KD 6,250,000) (Note 16). These balances are due to one of the major shareholder (Note 27).

Islamic finance payables relating to the one of the subsidiaries of the Group include KD 10,035,137 (2021: Nil) under Tawaruq agreements are unsecured and repayable within 1 to 5 years. The amount due is settled on a deferred payment basis and currently carrying profit at 4.75% per annum (2021: Nil).

Islamic finance payables of the Parent Company are previously restructured debt. On 19 August 2020, the Court of Cassation had issued its final verdict approving the debt restructuring plan ("proposed plan") ratified by the Central Bank of Kuwait and the suspension of litigation and enforcement procedures related to the remaining debt exposure until the end of 2024. Subsequent to the final verdict, the Parent Company reached a settlement with lenders amounting KD 133,989,680 of the total outstanding Islamic financing payables. Furthermore, during the year ended 31 December 2022, no further settlement agreements entered between the Parent Company and the remaining lenders.

### 24 OTHER LIABILITIES

	2022 KD	2021 KD
Trade payables	6,526,943	6,570,302
Real estate payables	700,000	708,859
Advances from customers and security deposits	1,308,420	1,620,159
Provision for employees' end of service benefits and accrued staff leave	4,221,158	3,859,091
Dividends payable	296,038	289,894
Capital reduction payable	713,593	670,577
Amounts due to related parties (Note 27)	594,519	554,777
Provisions and other accruals	12,169,793	12,228,279
Lease liabilities	1,471,871	1,264,462
Other payables	5,409,144	4,583,248
	<u>33,411,479</u>	<u>32,349,648</u>

Set out below, are the carrying amount of the Group's lease liabilities and the movement during the year:

	2022 KD	2021 KD
As at 1 January	1,264,462	2,585,465
Additions	1,527,480	5,400
Payments	(1,392,244)	(1,391,590)
Finance costs	72,173	65,187
<b>As at 31 December</b>	<u>1,471,871</u>	<u>1,264,462</u>

# A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 24 OTHER LIABILITIES (continued)

The following are the amounts recognised in consolidated statement of income:

	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
Depreciation of right-of-use assets relating to leasehold rights (included under Note 7)	<b>1,157,440</b>	1,081,196
Depreciation of right-of-use assets (included with depreciation expense in the consolidated statement of profit or loss)	<b>230,949</b>	226,918
Finance costs on lease liabilities (included under Note 7)	<b>51,004</b>	62,823
Finance costs on lease liabilities (included under finance cost in the consolidated statement of profit or loss)	<b>21,169</b>	2,364
Total amount recognised in consolidated statement of profit or loss	<b>1,460,562</b>	1,373,301

### 25 CONTINGENCIES

At 31 December 2022, the Group's bankers have provided bank guarantees, amounting to KD 1,027,433 (2021: KD 301,672) from which it is anticipated that no material liabilities will arise.

The Group has commitments in respect of purchase of investment securities amounting to KD 1,125,000 (2021: Nil).

### 26 FIDUCIARY ASSETS

Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the consolidated financial statements, as they are not assets of the Group.

The Group manages client asset in a fiduciary capacity. The client assets have no recourse to the general assets of the Group and the Group has no recourse to the assets under management. Accordingly, assets under management are not included in the consolidated financial statements, as they are not assets of the Group. As at 31 December 2022, assets under management amounted to KD 39,058,502 (2021: KD 37,803,783). Income earned from fiduciary assets amounted to KD 258,093 for the year ended 31 December 2022 (2021: KD 197,689), out of which KD 241,519 (2021 : KD 180,762) is income earned from related parties. (Note 27).

### 27 RELATED PARTY DISCLOSURES

These represent transactions with certain related parties (major shareholders, directors and executive officers of the Group, close members of their families and entities of which they are principal owners or over which they are able to exercise significant influence) entered into by the Group in the ordinary course of business. Pricing policies and terms of these transactions are approved by the Group's management.

The aggregate value of transactions and outstanding balances with related parties were as follows:

	<i>Associates</i> <i>KD</i>	<i>Major</i> <i>shareholders</i> <i>KD</i>	<i>Other related</i> <i>parties</i> <i>KD</i>	<i>Total</i> <i>2022</i> <i>KD</i>	<i>Total</i> <i>2021</i> <i>KD</i>
Finance costs	-	56,670	-	<b>56,670</b>	64,765
Advisory and management fees	(13,271)	-	254,790	<b>241,519</b>	180,762

  

	<i>Associates</i> <i>KD</i>	<i>Major</i> <i>shareholders</i> <i>KD</i>	<i>Other related</i> <i>parties</i> <i>KD</i>	<i>Total</i> <i>2022</i> <i>KD</i>	<i>Total</i> <i>2021</i> <i>KD</i>
Cash and cash equivalents (Note 13)	-	191,188	-	<b>191,188</b>	479,610
Amount due from related parties (Note 17)	89,938	64,441	17,546	<b>171,925</b>	211,719
Financial assets at FVTPL	-	6,385,634	-	<b>6,385,634</b>	-
Islamic finance payables (Note 23)	-	1,473,400	-	<b>1,473,400</b>	1,619,129
Amount due to related parties (Note 24)	85,915	-	508,604	<b>594,519</b>	554,777

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

**27 RELATED PARTY DISCLOSURES (continued)**

Other transactions	<i>Associates</i> <i>KD</i>	<i>Major</i> <i>shareholders</i> <i>KD</i>	<i>Other related</i> <i>parties</i> <i>KD</i>	<b><i>Total</i></b> <b><i>2022</i></b> <b><i>KD</i></b>	<b><i>Total</i></b> <b><i>2021</i></b> <b><i>KD</i></b>
Purchases of inventories	-	-	1,527,245	<b>1,527,245</b>	1,195,450

**Terms and conditions of transactions with related parties**

Except for Islamic finance payables, outstanding balances at the year-end are unsecured, non-profit bearing and have no fixed repayment schedule. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2022, the Group has not recognised any allowance for expected credit losses relating to amounts owed by related parties (2021: KD Nil) as the Group has assessed its related parties to have low credit risk based on its strong liquidity position to meet its contractual cash flow obligations in the near term and therefore it does not expect to incur any significant credit losses on receivables from related parties.

**Transactions with key management personnel**

Key management personnel comprise of the key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The aggregate value of transactions related to key management personnel were as follows.

	<b><i>2022</i></b> <b><i>KD</i></b>	<b><i>2021</i></b> <b><i>KD</i></b>
Directors' remuneration	<b>120,000</b>	-
Salaries and other short term benefits	<b>1,040,430</b>	961,523
Employees end of service benefits	<b>116,968</b>	231,633
	<b><u>1,277,398</u></b>	<b><u>1,193,156</u></b>

Directors' remuneration of the Parent company amounting to KD 120,000 for the year ended 31 December 2022 (31 December 2021: Nil) is subject to approval of shareholders at the Annual General Meeting.

**28 SEGMENT INFORMATION**

For management purposes, the Group is organised into four major business segments. The principal activities and services under these segments are as follows:

- ▶ **Islamic financing:** Providing a range of Islamic products to corporate and individual customers
- ▶ **Leasing Sector:** Leasing of vehicle and equipment to corporate and individual customers and investments with similar or related operations
- ▶ **Real estate:** Buying, selling, and investing in real estate
- ▶ **Proprietary investment and assets management:** Operations of Group's subsidiaries and associates (excluding leasing related subsidiaries and associates) and managing funds and portfolios.

## A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

## 28 SEGMENT INFORMATION (continued)

	<i>Islamic financing KD</i>	<i>Leasing sector KD</i>	<i>Real estate KD</i>	<i>Proprietary investment and assets management KD</i>	<i>Others KD</i>	<i>Total KD</i>
<b>2022</b>						
Total assets	-	70,552,070	20,794,865	48,634,012	11,365,803	151,346,750
Total liabilities	-	22,642,154	3,904,342	3,648,747	17,676,962	47,872,205
Goodwill	-	-	-	91,005	-	91,005
	<i>Islamic financing KD</i>	<i>Leasing sector KD</i>	<i>Real estate KD</i>	<i>Proprietary investment and assets management KD</i>	<i>Others KD</i>	<i>Total KD</i>
<b>Year ended 31 December 2022</b>						
Revenue	18,806	12,896,406	2,249,444	3,941,032	-	19,105,688
Segment profit (loss)	73,767	7,678,745	1,475,800	2,018,348	(653,890)	10,592,770
Depreciation	-	(8,562,223)	(1,161,975)	(8,538)	-	(9,732,736)
Amortisation of leasehold rights	-	-	(943,759)	-	-	(943,759)
Net impairment losses	86,953	(277,891)	(92,783)	(68)	127,748	(156,041)
Share of results of associates	-	-	-	821,953	-	821,953
<b>Other disclosures:</b>						
Capital expenditure	-	685,022	911,905	-	13,886	1,610,813
Investment in associates	-	-	-	20,091,871	-	20,091,871

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

## 28 SEGMENT INFORMATION (continued)

	<i>Islamic financing KD</i>	<i>Leasing sector KD</i>	<i>Real estate KD</i>	<i>Proprietary investment and assets management KD</i>	<i>Others KD</i>	<i>Total KD</i>
<i>2021</i>						
Total assets	-	68,057,582	21,743,787	33,247,691	15,109,159	138,158,219
Total liabilities	-	11,707,760	4,234,084	3,905,032	17,074,013	36,920,889
Goodwill	-	-	-	91,005	-	91,005

# A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 28 SEGMENT INFORMATION (continued)

	<i>Islamic financing KD</i>	<i>Leasing sector KD</i>	<i>Real estate KD</i>	<i>Proprietary investment and assets management KD</i>	<i>Others KD</i>	<i>Total KD</i>
<i>Year ended 31 December 2021</i>						
Revenue	20,518	10,731,955	1,288,053	2,659,772	1,389,516	16,089,814
Segment (loss) profit	93,003	6,067,266	656,652	(497,216)	1,199,671	7,519,376
Depreciation	-	(7,898,539)	(1,083,538)	(5,077)	-	(8,987,154)
Amortisation of leasehold rights	-	-	(1,331,756)	-	-	(1,331,756)
Net impairment losses	1,690,405	(154,752)	71,740	(4,373,466)	529,048	(2,237,025)
Share of results of associates	-	-	-	(1,392,564)	-	(1,392,564)
Other disclosures:						
Capital expenditure	-	-	-	-	71,399	71,399
Investment in associates	-	-	-	11,141,315	-	11,141,315

### Geographical information

The majority of the Group's assets and revenue is based in the State of Kuwait.



**29 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES**

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's achieving profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into profit rate risk, foreign currency risk and equity price risk. It is also subject to operating risks. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

The Board of Directors of the Parent Company is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

**29.1 Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade and other receivables) and from its financing activities, including deposits with banks and financial institutions.

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

	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
Cash and short-term deposits	<b>17,014,416</b>	30,942,199
Trade receivables	<b>2,546,806</b>	2,259,839
Receivables from related parties	<b>171,925</b>	211,719
Other receivables	<b>1,590,608</b>	1,543,718
	<b>21,323,755</b>	34,957,475

***Cash and short-term deposits***

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

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

***Trade receivables and other receivables***

The Group uses a provision matrix based on the Group's historical observed default rates to measure the ECLs of trade receivables and other receivables from individual customers, which comprise a very large number of small balances. The Group assumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Generally, trade receivables and other receivables are written-off if past due for more than one year and are not subject to enforcement activity. The Group does not hold collateral as security.

# A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 29 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### 29.1 Credit risk (continued)

##### *Trade receivables and other receivables (continued)*

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

31 December 2022	Trade receivables			
	Current KD	Days past due		Total KD
		91-180 days KD	>180 days KD	
Gross carrying amount	2,276,510	559,772	7,979,432	10,815,714
Estimated credit loss	654,374	269,510	7,345,024	8,268,908
Expected credit loss rate	29%	48%	92%	76%

  

31 December 2021	Trade receivables			
	Current KD	Days past due		Total KD
		91-180 days KD	>180 days KD	
Estimated total gross carrying amount at default	1,603,493	369,913	8,286,284	10,259,690
Estimated credit loss	550,550	224,693	7,224,608	7,999,851
Expected credit loss rate	34%	61%	87%	78%

As at the reporting date other assets is net of allowance for expected credit losses of KD 4,990,946 (2021: KD 5,051,277).

##### *Amounts due from related parties*

The net outstanding balance of amounts due from related parties are considered to have a low risk of default and management believes that the counterparties have a strong capacity to meet contractual cash flow obligations in the near term. As a result, the impact of applying the expected credit risk model at the reporting date on the outstanding balances was immaterial.

##### **Significant increase in credit risk**

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Group assess as whether there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk. In addition to the above quantitative criteria, the Group applies qualitative criteria for the assessment of significant increase in credit risk based on monitoring of certain early warning signals.

##### **Measurement of ECLs**

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

The Group calculates ECL on credit facilities classified in stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying applicable haircuts.

**29 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****29.1 Credit risk (continued)****PD estimation process**

The probability of default (PD) is the likelihood that an obligor will default on its obligations in the future. IFRS 9 requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Group's estimate of the future asset quality. The Group utilises the internal credit standings of its Islamic financing customers and other measures and techniques which seek to take account of all aspects of perceived risk in estimating the PD for IFRS 9. Furthermore, the Group also considers CBK's requirements on flooring of PD for credit facilities.

**Exposure at default**

Exposure at default (EAD) represents the amount which the obligor will owe to the Group at the time of default. The Group considers EAD based on CBK's guidelines on credit conversion factors to be applied on utilised portions for cash facilities.

**Loss given default**

Loss given default (LGD) is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based CBK's guidelines on eligible collaterals with prescribed haircuts for determining LGD.

**29.2 Liquidity risk**

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

The Group maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The Group also has lines of credit that it can access to meet liquidity needs.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

<b>2022</b>	<i>Less than 3 months KD</i>	<i>3 to 12 months KD</i>	<i>1 to 5 years KD</i>	<i>Total KD</i>
Islamic finance payables	5,537,507	1,215,507	8,855,130	15,608,144
Lease liabilities	393,120	892,250	219,680	1,505,050
Other liabilities*	6,349,448	5,445,214	15,788,585	27,583,247
	<u>12,280,075</u>	<u>7,552,971</u>	<u>24,863,395</u>	<u>44,696,441</u>
<b>2021</b>	<i>Less than 3 months KD</i>	<i>3 to 12 months KD</i>	<i>1 to 5 years KD</i>	<i>Total KD</i>
Islamic finance payables	4,571,241	-	-	4,571,241
Lease liabilities	295,557	885,291	108,446	1,289,294
Other liabilities*	7,172,802	1,917,127	17,733,834	26,823,763
	<u>12,039,600</u>	<u>2,802,418</u>	<u>17,842,280</u>	<u>32,684,298</u>

\* excluding advances and provision for employees' end of service benefits)

**29 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****29.3 Market risk**

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices. Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long- and short-term changes in fair value.

**29.3.1 Equity price risk**

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio. Equity price risk is managed by the direct investment department of the Parent Company. The Group manages this through diversification of investments in terms of geographical distribution and industry concentration. The majority of the Group's quoted investments are listed on the Kuwait Stock Exchange.

The effect on Group's profit (as a result of a change in the fair value of financial assets at fair value through profit or loss) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

	2022		2021	
<i>Stock Prices</i>	<i>Change in equity price %</i>	<i>Effect on profit KD</i>	<i>Change in Equity price %</i>	<i>Effect on profit KD</i>
Boursa Kuwait	5%	250,045	5%	-
Others	5%	605	5%	553

**29.3.2 Profit rate risk**

Profit rate risk is the risk that the fair value of future cash flows of a financial instruments will fluctuate because of changes in market profit rate.

The Group's profit rate risk primarily arise from its borrowings. The Group is subject to limited exposure to profit rate risk due to the fact that this comprises of Islamic finance payables which are fixed-rate instruments and may be repriced immediately based on market movement in profit rates.

**29.3.3 Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group incurs foreign currency risk on transactions denominated in a currency other than the KD. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries.

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

The Group does not have significant foreign currency exposures at 31 December 2022 and 31 December 2021 as its monetary assets and liabilities are primarily denominated in Kuwaiti Dinar.

# A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 30 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. Trading assets and liabilities have been classified to mature and/or be repaid within 12 months, regardless of the actual contractual maturities of the products.

<b>2022</b>	<b><i>Within 3 months KD</i></b>	<b><i>3 to 6 months KD</i></b>	<b><i>6 to 12 months KD</i></b>	<b><i>1 to 3 years KD</i></b>	<b><i>Over 3 years KD</i></b>	<b><i>Total KD</i></b>
<b>ASSETS</b>						
Cash and short-term deposits	16,998,405	-	-	16,011	-	17,014,416
Financial assets at FVTPL	-	-	727,550	3,077,458	5,889,266	9,694,274
Investment in associates	695,634	-	-	-	19,396,237	20,091,871
Investment properties	-	-	-	-	31,216,201	31,216,201
Other assets	7,733,411	1,137,845	1,628,740	767,836	163,455	11,431,287
Property and equipment	4,182,234	3,105,810	9,414,149	30,074,225	14,530,167	61,306,585
Leasehold rights	165,201	167,037	168,873	-	-	501,111
Goodwill	-	-	-	-	91,005	91,005
<b>TOTAL ASSETS</b>	<b>29,774,885</b>	<b>4,410,692</b>	<b>11,939,312</b>	<b>33,935,530</b>	<b>71,286,331</b>	<b>151,346,750</b>
<b>2022</b>	<b><i>Within 3 months KD</i></b>	<b><i>3 to 6 months KD</i></b>	<b><i>6 to 12 months KD</i></b>	<b><i>1 to 3 years KD</i></b>	<b><i>Over 3 years KD</i></b>	<b><i>Total KD</i></b>
<b>LIABILITIES</b>						
Islamic finance payables	5,460,726	-	1,000,000	4,000,000	4,000,000	14,460,726
Other liabilities	7,235,145	3,392,718	3,141,718	17,048,188	2,593,710	33,411,479
<b>TOTAL LIABILITIES</b>	<b>12,695,871</b>	<b>3,392,718</b>	<b>4,141,718</b>	<b>21,048,188</b>	<b>6,593,710</b>	<b>47,872,205</b>
<b>NET</b>	<b>17,079,014</b>	<b>1,017,974</b>	<b>7,797,594</b>	<b>12,887,342</b>	<b>64,692,621</b>	<b>103,474,545</b>

## A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

**30 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

2021	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>1 to 3 years KD</i>	<i>Over 3 years KD</i>	<i>Total KD</i>
<b>ASSETS</b>						
Cash and short-term deposits	30,889,086	-	-	53,113	-	30,942,199
Financial assets at FVTPL	308,331	-	808,308	598,360	257,865	1,972,864
Investment in associates	596,955	-	-	-	10,544,360	11,141,315
Investment properties	-	-	-	-	32,000,157	32,000,157
Other assets	4,321,437	720,861	913,779	538,806	1,284,248	7,779,131
Property and equipment	3,877,199	3,623,943	8,835,120	22,088,448	14,361,968	52,786,678
Leasehold rights	328,379	332,028	671,354	113,109	-	1,444,870
Goodwill	-	-	-	-	91,005	91,005
<b>TOTAL ASSETS</b>	<b>40,321,387</b>	<b>4,676,832</b>	<b>11,228,561</b>	<b>23,391,836</b>	<b>58,539,603</b>	<b>138,158,219</b>
<b>LIABILITIES</b>						
Islamic finance payables	4,571,241	-	-	-	-	4,571,241
Other liabilities	8,235,236	851,186	2,173,610	17,540,048	3,549,568	32,349,648
<b>TOTAL LIABILITIES</b>	<b>12,806,477</b>	<b>851,186</b>	<b>2,173,610</b>	<b>17,540,048</b>	<b>3,549,568</b>	<b>36,920,889</b>
<b>NET</b>	<b>27,514,910</b>	<b>3,825,646</b>	<b>9,054,951</b>	<b>5,851,788</b>	<b>54,990,035</b>	<b>101,237,330</b>

# A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 31 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2022.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, Islamic finance payables and other liabilities less cash and short-term deposits. Capital represents equity attributable to the equity holders of the Parent Company.

	2022 KD	2021 KD
Islamic finance payables	14,460,726	4,571,241
Other liabilities**	29,055,118	28,087,927
Less: cash and short-term deposits	(17,014,416)	(30,942,199)
<b>Net debt</b>	<b>26,501,428</b>	<b>1,716,969</b>
Equity attributable to the equity holders of the Parent Company	91,223,657	88,254,253
<b>Capital and net debt</b>	<b>117,725,085</b>	<b>89,971,222</b>
Gearing ratio	23%	2%

\*\* Other liabilities excluding advances and end of service benefits.

### 32 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date.

#### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of its assets and liabilities by valuation technique:

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

**32 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****Valuation methods and assumptions**

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

*Listed investment in equity securities*

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

*Unquoted equity investments*

The Group invests in private equity companies that are not quoted in an active market. Transactions in such investments do not occur on a regular basis. Unquoted equity securities are valued based on dividend discount model and book value and price to book multiple method, multiples using latest financial statements available of the investee entities after considering for Discount for lack of marketability (DLOM) in the range of 40%-50%. The Group classifies the fair value of these investments as Level 3.

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

*Funds and portfolio*

The Group invests in managed funds and portfolio, including private equity funds, which are not quoted in an active market and which may be subject to restrictions on redemptions such as lock up periods. The management considers the valuation techniques and inputs used in valuing these funds and portfolio as part of its due diligence prior to investing, to ensure they are reasonable and appropriate. Therefore, the Net Asset Value (NAV) of these investee funds and portfolio may be used as an input into measuring their fair value. The Group classifies these funds and portfolio as Level 2.

The following table shows an analysis of the assets measured at fair value by level of the fair value hierarchy:

	Fair value measurement using			Total KD
	Quoted prices in active markets (Level 1) KD	Significant observable input (Level 2) KD	Significant unobservable inputs (Level 3) KD	
<b>31 December 2022</b>				
Assets measured at fair value:				
Financial assets at FVTPL				
Local quoted equity securities	7,853,982	-	-	7,853,982
Foreign quoted equity securities	31,827	-	-	31,827
Local funds	-	466,173	-	466,173
Foreign portfolio	-	451,768	-	451,768
Local unquoted equity securities	-	-	890,524	890,524
	<b>7,885,809</b>	<b>917,941</b>	<b>890,524</b>	<b>9,694,274</b>



# A'ayan Leasing and Investment Company K.S.C.P. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 32 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	Fair value measurement using			Total KD
	Quoted prices in active markets (Level 1) KD	Significant observable inputs (Level 2) KD	Significant unobservable inputs (Level 3) KD	
31 December 2021				
Assets measured at fair value:				
Investment securities:				
Foreign quoted equity securities	29,105	-	-	29,105
Local funds	-	466,275	-	466,275
Foreign portfolio	-	465,966	-	465,966
Local unquoted equity securities	-	-	1,011,518	1,011,518
	<u>29,105</u>	<u>932,241</u>	<u>1,011,518</u>	<u>1,972,864</u>

There were no transfers between any levels of the fair value hierarchy during 2022 or 2021.

#### Reconciliation of Level 3 fair values

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

	<i>Financial assets at FVTPL KD</i>	<i>Total KD</i>
As at 1 January 2022	<b>1,011,518</b>	<b>1,011,518</b>
Additions	<b>150,000</b>	<b>150,000</b>
Remeasurements recognised in profit or loss	<b>(270,994)</b>	<b>(270,994)</b>
<b>As at 31 December 2022</b>	<b><u>890,524</u></b>	<b><u>890,524</u></b>

  

	<i>Financial assets at FVOCI KD</i>	<i>Financial assets at FVTPL KD</i>	<i>Total KD</i>
As at 1 January 2021	4,340,771	1,201,476	5,542,247
Additions	2,657,540	-	2,657,540
Disposals	(1,988,028)	-	(1,988,028)
Remeasurements recognised in OCI	(1,458,303)	-	(1,458,303)
Remeasurements recognised in profit or loss	-	(189,958)	(189,958)
Reclassified to associates	(3,551,980)	-	(3,551,980)
As at 31 December 2021	<u>-</u>	<u>1,011,518</u>	<u>1,011,518</u>

Fair value of other financial instruments is not materially different from their carrying values, at the reporting date, as most of these instruments are of short term maturity or re-priced immediately based on market movement in profit rates.

For assets classified as level 3, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; or other valuation models. The Group has also performed a sensitivity analysis by varying these input factors by 5%. Based on such analysis, no significant changes in fair values were noted.