



شركة أعيان للإجارة والاستثمار  
A'AYAN LEASING & INVESTMENT CO.

Annual Report  
2020



الحمد لله الرحمن



His Highness Sheikh  
**Nawaf Al-Ahmed Al-Jaber Al-Sabah**  
Amir of the State of Kuwait



His Highness Sheikh  
**Mishal Al-Ahmed Al-Jaber Al-Sabah**  
Crown Prince of the State of Kuwait

# Fatwa and Sharia Supervisory Board



**Sheikh Prof. Sayed Mohammad A. Al-Tabtabae**  
Chairman of Fatwa and Sharia Supervisory Board



**Sheikh Prof. Ahmad H. Al-Kurdi**  
Fatwa and Sharia Supervisory Board Member



**PhD. Khalid Shoga'a Al Atibi**  
Fatwa and Sharia Supervisory Board Member

# Board of Directors



**Mr. Fahad Ali M. Thunayan Al-Ghanim**  
Chairman



**Mr. Muhannad Mohammed Al-Sanea**  
Board Member



**Mr. Nasser Ibrahim Borousli**  
Board Member



**Mr. Abdulaziz Nasser Al-Marzouq**  
Deputy Chairman



**Mr. Mansour Hamad Al-Mubarak**  
Board Member



**Mr. Riyadh Nasser Al-Bader**  
Board Member



**Mr. Talal Reda Behbehani**  
Board Member

# Message from the Chairman of the Board of Directors



**In the name of Allah, praise be to the Almighty, peace and blessings and upon Prophet Mohamed, the best honorable of all mankind, his family, companions and followers till the Day of Judgment.**

**Dear Shareholders ..... Peace and blessings of Allah be upon you.**

It gives me pleasure to welcome you at this General Assembly Meeting and to present to you the annual report of A'Ayan Leasing and Investment Company, Sharia Supervisory Board Report, Corporate Governance Report, the Audit Committee Report, the Auditors' Report and the Consolidated financial statements for the financial year ended 31 December 2020.

Year 2020 was an exceptional year by all interpretation for A'Ayan Leasing and Investment Company "Company" and its subsidiaries companies "Group". The year started with many challenges on all fronts. The novel Corona virus pandemic has cast a shadow over all aspects of life, and many economic sectors have been affected for many reasons. The most important of such reasons and is the precautionary measures that the State of Kuwait saw and the accompanying suspension of many commercial activities. However, such measures were similar to those adopted by others over the globe. In light of these exceptional circumstances, the Group endeavored in order to achieve its goals and interact with all its stakeholders as they were and will remain professionally entrusted to the Group.

As outlined in our message to you last year, the Company had appealed against the court ruling issued by the Financial Stability Court on 4/12/2019 rejecting the Company's request for a final settlement of its debt. However, thanks to God and the sincere efforts of the company in preparing the appeal against the ruling before the Court of Cassation, the Court of Cassation issued a judgment on 19/8/2020 accepting the appeal and ratifying the amendment of the payment plan and the suspension of litigation procedures during the period until 2024.

Immediately after the ruling, the Company began communicating with all its creditors in order to close this file, which spanned many years. Within a short period, the Company was able to complete the final settlement process with most of the creditors, which resulted in settling approximately 93% of the Company's debt towards creditors. Our efforts shall continue in order to finalize the settlement of the remainder of the Islamic Financing payable with the rest of the creditors as soon as possible. Accordingly, the Company was able to enhance its financial position and cover all the accumulated losses over the past years. The following is a comparison of the Group's financial position in 2011 before entering into the restructuring plan and its financial position as at the end of 2020. The most important financial indicators of the Group as at the end of the year are as follows:



<b>Financial Indicators (in Kuwaiti Dinars)</b>	<b>31/12/2011</b>	<b>31/12/2020</b>
Islamic finance payable	384,564,213	11,724,029
Retained Earnings / (Accumulated Losses) attributable to Equity holders of Company	(42,700,539)	130,727
Net profit / (loss) for the year attributable to Equity holders of Company	(18,826,574)	20,685,366
(Deficit)/Equity attributable to Equity holders of Company	(11,972,637)	91,190,060
Total Assets	454,691,843	146,690,786
Total Liabilities	420,190,748	43,100,247
Excess/(Shortfall) of Current Assets Over Current Liabilities	(193,345,837)	38,786,139
Capital Adequacy Ratio (as required by Regulatory Authority)	No Requirements	242%

The Board of Directors also recommended a reduction of the Company's share capital through cash distribution of, which represents 12.28% of the Company's Existing share capital. The said recommendation is subject to the approval of the extraordinary general assembly of the Company after obtaining the approval of the relevant regulatory authorities concerning this recommendation.

As such, the Company has gone through a difficult period in its history that spanned for years in which the Company committed itself to the restructuring plan, during which it was obliged to exit from many of its assets in order to fulfill its obligations. In this regard, I wish to extend my sincere thanks to my brothers, members of the Board of Directors and the Company's employees, who worked side by side in order to overcome the challenges of the previous phase and contributed to preserve the position of the Company.

Today, the Company started new era with a strong financial position, and a balanced financial policy that defines its strategy during the upcoming stages. Thus, A'Ayan Leasing and Investment Company would present a successful model in overcoming crises and marching ahead, towards new future successes for the shareholders of the Company, God willing



**Fahad Ali Mohammed Thunayan Al-Ghanim**  
Chairman of Board of Directors

# CEO Speech

**In the name of Allah, the Most Compassionate, Thanks to Allah, Prayers and Peace be Upon His Prophet, Companions and Good followers till the Day of Judgment**

**Our Valued Shareholders; May Peace, Mercy, and Blessings of All be upon you.**

On behalf of the Executive Management of A'Ayan Leasing and Investment Company, I have the pleasure to present this report highlighting the Company's Key financial indicators for the year ended 31 December 2020 and to briefly highlight the updates on key financial and economic development in year 2020.

## **Overview of the Economic Situation in 2020**

### **First: Impacts of Covid-19 on the World Economy**

The Year 2020 has been among the difficult years for global economy in more than 70 years. We have seen unprecedented shut downs of economic activity along with ultra-easing of monetary policy by central banks all around the world. With the rollout of the vaccine, it is expected that corporate earnings and global output will come back to pre-pandemic levels by the end of 2021. However, the normalization will largely depend on the speed of vaccine rollout, which poses downside risks.

Economic data available at the time of the April 2020 WEO forecast indicated an unprecedented decline in global activity due to the COVID-19 pandemic. Data releases since then suggest some improvement, particularly in advanced economies, where activity began to improve after restrictions were lifted in May. However, with the resurgence of a second wave, mostly felt in Europe, the implications of re-imposed lockdowns will likely entail further economic scarring and prolonged recovery.

Swift and, in some cases, novel actions by major central banks (such as a few emerging markets central banks launching quantitative easing for the first time and some advanced economy central banks significantly increasing the scale of asset purchases) have enhanced liquidity provision and limited the rise in borrowing costs.

For the first time, all regions are projected to experience negative growth in 2020. There are, however, substantial differences across individual economies, reflecting the evolution of the pandemic and the effectiveness of containment strategies; variation in economic structure (for example, dependence on severely affected sectors, such as tourism and oil); reliance on external financial flows, including remittances; and precise growth trends.

Fundamental uncertainty around the evolution of the pandemic is a key factor shaping the economic outlook and hinders a characterization of the balance of risks. The downturn could be less severe than forecast if economic normalization proceeds faster than currently expected in areas that have reopened. Medical breakthroughs with therapeutics and changes in social distancing behavior might allow health care systems to cope better without requiring extended, stringent lockdowns. Vaccine rollouts have started at a rapid pace, giving hopes of improvement in consumer sentiments.

### **Second: Impacts of Covid-19 on the regional Economy**

According to the IIF, the six Gulf Cooperation Council (GCC) nations are facing their worst economic crisis in history amid the double shock of plunging oil prices and the coronavirus pandemic.

As per the IMF, real GDP in the GCC is expected to contract by 6.0% in 2020, despite some indications that the virus spread has been partially contained and the easing of restrictions in recent weeks. Cuts in public spending adopted by regional authorities to contain the widening of their deficits could possibly offset part of losses stemming from reduced oil exports, however, the aggregate deficits are still expected to widen to 10.3% of GDP in 2020 from 2.5% in 2019.



# CEO Speech

Published data indicate that the regional banking system remained solid, with strong liquidity and capitalisation, and relatively low non-performing loans. Liquidity support measures introduced by GCC authorities to support banks amount to 4% of GDP, or \$54 billion. Saudi Arabia, the region's largest economy, could see its real GDP shrink 4% this year and its deficit widen to 13% of GDP.

Oman, which is emerging as “an increasingly vulnerable spot in the region in light of its mounting debt” could experience a 5.3% economic contraction while its deficit could widen to 16.1% (of GDP) this year from 9.4% in 2019.

## **Third: Domestic Situations: Kuwait**

According to the World Bank, growth in Kuwait has been tapering since 2019, with performance in 2020 suffering from the twin shocks of COVID-19 and the oil price slump. Adding to the inevitable increase in the fiscal deficit—from the decline of oil revenue and spending on mitigating the COVID-19 crisis—funding needed for the Future Generations Fund is exacerbating pressure on fiscal buffers (in the absence of a debt law).

The World Bank estimates that Kuwait's GDP is expected to contract by 5.4% in 2020 on the back of lower oil output and weaker oil prices. In the period between April and September, total revenues declined by 48% y/y to KD 4.6 billion, resulting in a modest fiscal deficit of KD 1.9 billion for the period. For the remainder of the financial year (October-March 2021), the deficit; however, is expected to expand to around KD 10 billion, based on current assumptions.

Oil export revenues, which account for around 89% of total exports, declined by approximately 50% in Q2 2020 (reaching KD 1.8 billion) compared to the previous quarter due to the plunge in crude oil prices. In the first nine months of FY20/21 (from April to December), total revenues registered a decline of 46% y/y to KD 6.9 billion; meanwhile spending fell by around 10% to KD 12.3 billion during the same period. As a result, the fiscal deficit stood at KD 5.4 billion (around 22% of pro-rated GDP).

## **Fourth: Performance Kuwait Stock Market**

All Kuwaiti benchmark indices recorded a negative performance by the end of 2020, to decline collectively, with significant losses compared to the closings of 2019.

Where Kuwait All Share Market Index recorded an annual decline of 11.7% by ending 2020 trading at the level of 5546.04 points, compared to the close of 2019 at 6282.46 points, bringing the annual losses to 736.42 points.

The premier market index declined 13.3% during the year at 6051.07 points, with losses of 924.89 points, compared to the 2019 close at 6975.96.

The main market index fell in 2020 by 7.30% as it ended the year at 4552.43 points compared to the 2019 close at 4910.69 points, losing more than 358 points.

As for the “Main 50” index, which was launched on February 9 at the level of 5000 points, its losses from that date until the end of 2020 amounted to 363.65 points, a decrease of 7.27% after ending the year at 4636.35 points.

# CEO Speech

## Fifth: Company's Performance Indicator & Synopsis on Financial Performance

The Executive Management at A'Ayan Leasing and Investment Company worked during the year 2020 to achieve the goals and aspirations that were drawn in cooperation with the Company's Board of Directors, in a way that would achieve the maximum benefit to all the Company's shareholders. There is no doubt that the settlement of the Company's debts was a constant concern and the main goal of the Executive Management's priorities. The importance given to settling the Company's debts has not resulted in any compromise on following up the rest of the Company's sectors to achieve the established goals. On the contrary, efforts were exerted to improve the performance of all the Company's operational assets and follow them intensively, since these assets will be the basis for achieving what the Company aspires to in the next phase of expansions and ambitions.

The Company has rapidly reacted and worked in line with the exceptional circumstances that the country and the entire world have experienced due to the spread of the COVID-19 pandemic. Since the Council of Ministers' announcement and its first decision to suspend state agencies from their work on March 11, 2020, the Company's executive management has met and developed a work plan and activated the emergency plan in line with the Company's set contingency plan and business continuity policy. The pace of the measures taken has escalated to reflect the changing precautionary measures adopted by the concerned authorities in the country. Among the most important measures and decisions taken by the Company during that period are the following:

- Activating the remote work system to run the Company's business during the period, to ensure the preservation of the Company's data and information.
- Contributing to support the efforts exerted in the country and maintaining the balance of the economic system by waiving some rental income in some of the Company's investment properties, which reflected positively on the relationship between the Company and its tenants in addition to its role in the field of social responsibility at the current stage.
- Using all available advanced means of communication to hold internal and external meetings.
- Working to update the emergency plans guide and follow up on business continuity to reflect the measures that have been taken, and to keep pace with the necessary measures to deal with epidemics and the cases of disruption in the various State agencies.
- A financial study was prepared to determine the financial impact and expected risks on the level of financial cash flows and profitability of the Company based on the forced halt that occurred in some of the Company's assets on the short, medium and long terms.

With regard to Awaed Real Estate Fund managed by the Company, the Fund had continuously distributed the monthly return to the Fund's investors throughout the months of 2020, including the full lockdown periods. In addition to this, it was observed to prepare the necessary reports on funds and portfolios and sending the same to the concerned authorities on the monthly reporting dates.

The Company's assets have been affected due to the exceptional situations that we all face. Net income from leasing operations for the first six months of 2020 declined compared to the same period in 2019 by 15% due to the necessity to temporarily close the showrooms. Rental income from investment properties and leasehold rights for the first six months of 2020 also decreased compared to the same period in 2019 by 16%. These indicators improved later towards end of the year after some precautionary restrictions on various economic activities were eased.

# CEO Speech

Returning to the main achievements of this year, there is no doubt that reaching a final settlement of the company's debts with approximately 93% of the Company's creditors was the most important achievement for the year. The executive management has shouldered all its capabilities and efforts in order to reach the desired understandings with the various creditors of the Company.

Thanks to God and the support of the Company's Board of Directors, the Company passed this phase within a short period of time in a way that reflected the extent of diligence and accuracy in implementing the established operational plan. Some of the Company's assets, including shares in companies and some real estate, were an essential part of the settlement process, which was clearly reflected in the Company's financial position. Whereas, as of 30th September 2020, it became mandatory to apply the International Financial Reporting Standard IFRS 5, which affected the method of classifying and recording the assets and liabilities of Tawazun Holding Company and A'Ayan Real Estate Company, as these two subsidiaries of "A'Ayan" were part of settlement of Islamic finance payables. Accordingly, the method of presenting the financial position and income statement was in accordance with IFRS 5, by separating the results and financial position into both continuing and discontinued operations.

During year 2020, the Parent Company (A'Ayan Leasing & Investment Company) recorded Profit of KD 20.7 million represents 25.80 Fils EPS and its Equity reached KD 91.2 Million as at the end of year 2020 from 68.4 Million at 2019 year end. Net profits recorded for the year 2020 had fully covered all its accumulated losses of 20.2 million KD as at 31st December 2019, ended up in Retained Earnings at 31st December 2020 to KD 0.1 Million.

During the year 2020, the Parent Company recorded Haircut Income on settlement of Islamic Finance Payable amounted 25.4 million KD, resulting out of debt settlement with several creditors, due to which its Islamic Finance Payables has been reduced from KD 136.9 million to KD 9.9 million as at 2020 year end.

A'Ayan Group reported with its consolidated total assets and total liabilities of KD 147 Million and KD 43 Million respectively as at the end of year 2020.

The Company has been consistently focusing on its various business operations, in realizing profits. Below is a summary of our sector-wise performance & other achievements during the year.

## **Sixth : Review of the Company's Activities**

### **Leasing Sector:**

The leasing sector achieved good performance rates during the year 2020 despite the surrounding circumstances where year 2020 saw a decrease in operating revenues by 15% to reach 30.3 Million Kuwaiti dinars for the year 2020 compared to 35.6 Million Kuwaiti dinars in 2019.

The gross profit also decreased by 13% to reach 7.6 Million Kuwaiti dinars for the year 2020 compared to 8.7 Million Kuwaiti dinars for the year 2019. On the other hand, the Gross profit margin increased to reach 25% for the year 2020 compared to 24% for the year 2019. The company achieved an increase in total assets by 2%, reaching 72.7 Million Kuwaiti dinars for the year 2020, compared to 71.3 Million Kuwaiti dinars for the year 2019. Furthermore, Total Equity increased by 15%, reaching 45.3 Million Kuwaiti dinars for the year 2020 compared to 39.5 Million Kuwaiti dinars for the year 2019.

# CEO Speech

On the other hand, A'Ayan Kuwait Auto Company has developed a new strategy through which it seeks to continue leading the automotive sector in fields of services provided and product diversification while focusing on achieving sustainability through the basic pillars of the new strategy. The most important of which are excellence and leadership in customer service through service quality, easy procedures, technological and digital transformation and continuous development reflecting leadership in this sector. As such, A'Ayan Connect service was introduced to provide services around the clock through the WhatsApp and the social media networks.

The Leasing Sector (represented by A'Ayan Leasing Holding Company)- boosted its intensive efforts in the operational leasing and signed a number of mega deals during the year with some major car dealers, allowing the Company to diversify vehicle brands and models offered to corporate, government and individual customers and provide robust competitive services and products to customers favoring them with the highest level of luxury and quality service. The Company has also managed to sell a large number of used cars through cooperation with various financing institutions.

A'Ayan Leasing Holding Company is a fully owned and operational arm of A'Ayan Leasing & Investment Company in the automotive rental sector and related services managing the Company's auto services in Kuwait and abroad. A'Ayan Leasing Holding Company owns many subsidiaries of which the most important are: A'Ayan Kuwait Auto Company specialized in leasing new cars and selling used cars, Budget Car Rentals; an international lease agency focusing on short and medium term leasing, Rekab Rent-A-Car a company specialized in short and medium term leasing, Aayan Garage; the main center specialized in repairing and maintaining A'Ayan 's car fleet. A'ayen Garage is equipped with the state-of-the-art equipment and tools and operates in Kuwait through two branches in Shuwaikh Industrial area and Ahmadi governorate.

## Real Estate Sector:

In the year 2020, the investment real estate market was exposed to a decrease in rental values for investment real estate and a reduced demand for residential units in investment properties since the beginning of the second quarter specifically. This affected the real estate sector in general and led to an increase in supply and weak demand for such investment real estate units.

As for the vocational plots owned by the Company in Abu Fatira area, the level of leasing has been affected due to the closure of many activities due to the Corona pandemic and the failure of investors to pay the rental values accumulated on them that led to evacuating some of them. Most real estate owners in the area have taken the initiative to exempt investors from the rental value during full and partial lockdown. The Company has dealt with its investors in the same manner. However, the demand for leasing is still remarkable in the area during the post-lockdown period and during the last quarter of the year.

## Assets Management

The Assets Management Department "AMD" continued to manage and monitor the various asset classes of the Company's customers. Notwithstanding the Corona pandemic, Awaed Real Estate Fund continued to serve its customers appropriately, as the Fund maintained good performance compared to the performance of the real estate sector. The Fund's high liquidity continued to meet clients' refund requests, despite the stagnation in the real estate investment sector due to the repercussions of the Corona pandemic. The Fund maintained the distribution of monthly returns to its unit holders throughout the lockdown period and beyond, in order to achieve the desired objective of its establishment. The annual distributions ratio to the net unit value amounted to 4.28% at the end of the year. The "AMD" continued to focus on improving the Fund's asset performance and developing its performance to maintain its asset levels in light of the difficult circumstances resulting from the Corona crisis. During the year, the Fund's license was renewed for an additional three years, ending in 2023.

# CEO Speech

The AMD continued to pursue the liquidation of various contractual collective investment schemes. Efforts are exerted to find the appropriate mechanism to liquidate these portfolios according to each scheme in a way that serves the interest of investors. As such, the assets and their performance are improved until the appropriate opportunity is found to exit from all the assets of these schemes.

## Investment Sector

The investment sector represents a major part of A'Ayan Leasing and Investment Company's aggregate assets. The subsidiary and associate companies in which the Company owns strategic stakes continue to play an important role in the Company's performance in terms of performance results and cash flows.

In 2020, A'Ayan Leasing and Investment Company reached a settlement of its debt with approximately 93% of its creditors. According to such settlement, the ownership of most of the shares of its subsidiary - Tawazun Holding Company - was transferred to the concerned creditors who signed the settlement agreements, which resulted in A'Ayan Leasing and Investment Company losing its control over Tawazun Holding Company, whose assets include investments in A'Ayan Real Estate Company, Masha'aer Holding Company and Mubarrad Holding Company. Further to A'Ayan Leasing and Investment Company's loss of control in Tawazun Holding Company, the Group ceased to consolidate Tawazun and Aayan Real Estate. The retained interests in Tawazun Company and Aayan Real Estate Company were accounted as Financial Asset at Fair value through Other Comprehensive Income (FVOCI) in accordance with IFRS 9 : Financial Instruments and an Investment in associates in accordance with IAS 28 : Investment in Associates and Joint Ventures respectively, further to derecognition of Masha'er Holding Company as an associate company and retaining Mubarrad Holding Company as subsidiary with its continued control of A'Ayan Leasing and Investment Company over it through its remaining direct ownership.

In 2020 , Mubarrad Holding Company was able to achieve a net profit of 5 thousand Kuwaiti dinars compared to one million Kuwaiti dinars in 2019. A'Ayan Real Estate Company reported net losses of 11.6 million Kuwaiti dinars in 2020, compared to a net profit of KD 2.1 million in 2019.

## Seventh : Progress on Corporate Governance Standards and Rules

Compliance with the regulatory requirements and application of effective and proactive internal controls has always been a priority for Aayan Leasing and Investment Company. As such, the Company prepares the necessary reports to meet all the standards and rules related to the implementation of corporate governance and takes into account the guidelines and instructions issued by the Capital Markets Authority. In accordance with the CMA requirements, a detailed report on governance is included in the Company's annual report.



**Abdullah Mohammed Al-Shatti**  
Chief Executive Officer





# Sharia Supervisory Board Report

Date 28th Jumada Akhar 1442 AH  
10 February 2021  
Sharia Supervisory Board Report



**In the name of Allah, the All Compassionate, the Most Merciful**

**Praise be to Allah, Lord of all worlds and may peace and blessings be upon our Prophet Mohamed, His family and His companions**

**Dear Shareholders of A'Ayaan Leasing and Investment Company**

**Peace & blessing be upon you**

As per the General Assembly Resolution for our appointment and assignment as the Sharia Supervisory Board of the Company, we present the following report:

We have controlled and reviewed the principles applied and the contracts used for the transactions and products introduced by the Company during the fiscal period ended 31 December 2020 to express an opinion as to whether the Company has complied with Sharia Rules and Principles as per the Fatwas, rulings, decisions and guidelines set by the Sharia Supervisory Board.

The Company's management is responsible for the Company's compliance with Islamic Sharia Rules and Principles in all its operations. It is also responsible for ensuring and maintaining that compliance. Our responsibility is only to express an independent opinion on the Company's compliance with the rules and principles of Islamic Sharia, based on our inspection and review and to present a report on the extent of compliance to you.

We inspection our control and review, which included examining the contracts and procedures applied by the Company, on a test basis of each type of transactions. We planned and performed our control and review so as to obtain all the information and explanations that we deem necessary to provide us with sufficient evidences to give reasonable assurance that the Company has not violated the Islamic Sharia Rules and Principles.

## **Our opinion is as follows:**

- 1- We have reviewed the investment structures of the Company, which are either investment funds, or investment portfolios. We have reviewed the articles and memorandum of associations of these funds and portfolios. We found them in compliance with the rules and provisions of Islamic Sharia;
- 2- The contracts, transactions, all documents and new products, if any, concluded by the Company during the year ended 2020/12/31 made under our review are in compliance with Islamic Sharia Rules and Principles.
- 3- During the fiscal year ended 31 December 2020, we issued 94 decisions concerning some enquiries raised by the Company to the Sharia Supervisory Board.
- 4- All policies and procedures in place at the Company have been set in compliance with the Islamic Sharia Rules and Principles. Whenever such policies and procedures are subject to any amendments, the amendments are presented to the Sharia Supervisory Board to ensure they are undertaken in accordance with the rules and principles of Islamic Sharia.

May Allah the Almighty guide us to success and to the right path .

Peace & blessing of Allah be upon you

Approval of the Reverenced Sharia Board

## **Approval of the Sharia Supervisory Board eminence members**

**Sheikh Prof. Sayed Mohamed AbdulRazaq Al-Tabtabae**  
Chairman of Sharia Supervisory Board

**Sheikh Prof. Ahmed Al-Haji Al-Kurdi**  
Member of Sharia Supervisory Board

**Sheikh Prof. Khalid Shoga'a Al Atibi**  
Member of Sharia Supervisory Board

# Final Report of the External Shari'a Auditors



**Al-Mashoura & Al- Raya For Islamic Financial Services**  
**External Shari'a Auditors' Report for the Year 2020**

To M/s: A'Ayan Leasing & Investment Company (A'Ayan)

**Subject: Final Report of the External Shari'a Auditors  
for the Financial Period from 1 January 2020 to 31 December 2020**

Peace, mercy and blessings of Allah be upon you:

The External Shari'a Audit firm "the Shari'a Auditor" on Sunday, 24th Rajab 1442 corresponding 07th March 2021, after perusing the information received based on the request to review the operations and activities undertaken during the aforementioned period, conducting the field visits and studying the responses and attachments and in light of the above, the Shari'a Auditor presents to you this report as follows:

## **First: Scope of the External Shari'a Auditor**

The External Sharia Auditor's scope of Work covers the functions of A'Ayan Leasing and Investment Company various departments by monitoring all their commercial and financial transactions and securities and contracts dealings in accordance with the decisions of the Shari'a Supervisory Board, the approved Shari'a provisions and the instructions issued by the supervisory authorities concerning Shari'a audit.

## **second: External Shari'a Auditor's Responsibility**

The Responsibility of the External Shari'a Auditor is to verify the extent of the Company's compliance with the decisions of the Shari'a Supervisory Board, the Shari'a provisions and the instructions of the supervisory authorities related to Shari'a audit. Our responsibility is to express an independent opinion based on our audits on the commercial and financial transactions and securities and contracts dealings.

## **Third: Company's Responsibility**

The Company's Executive Management is responsible for performing all commercial and financial transactions and securities and contracts dealings in accordance with the decisions of the Shari'a Supervisory Board, Shari'a provisions and the instructions of the supervisory authorities concerning Shari'a audit.

## **Fourth: Objectives of the External Shari'a Auditor's Report:**

- Ensuring compliance with and implementation of the Islamic Shari'a provisions in accordance with Shari'a Supervisory Board's decisions, Shari'a provisions and the instructions of the supervisory authorities concerning Shari'a audit.
- Ensuring that securities, commercial and financial transactions and contracts under our examination and review are in accordance with the decisions of the Shari'a Supervisory Board, Shari'a provisions and the instructions of the supervisory authorities concerning Shari'a audit.
- Ensuring the integrity of transactions procedures, the areas responsible for such transactions and the stages of their execution.
- Providing Shari'a remedies for violations - if any - in securities, commercial and financial transactions, contracts or the methods of their implementation and setting a period for performing these remedies.
- Conducting and documenting field visits.
- Reviewing the reports of the Internal Shari'a Audit Unit.

## Fifth: The External Shari'a Audit Procedures and Results

We have:

- 1- Reviewed the Board- approved organizational structure
- 2- Reviewed the Company's bank accounts.
- 3- Reviewed the Company's internal Shari'a auditor's report.
- 4- Reviewed the financial statements for the year ended 2020/12/31.
- 5- Examined the funds and investment portfolios and their components.
- 6- Examined the dividends, and ensured that the profits have been purified during the period, if any.
- 7- Reviewed the decisions and the minutes of the meetings of the Shari'a Supervisory Board.
- 8- Checked the Sharia Supervisory Board's approval of policies and procedures during the period.
- 9- Examined the securities, commercial and financial transactions and contracts that were carried out by the concerned areas in the company and the stages of their execution: these areas are namely : Financial Department, Operations Department, Real Estate Department, Compliance Department, Human Resources and Administrative Affairs Department, Investment Department, Legal Department, Capital Investment Department, Asset Management Department, Treasury Department and Information Technology Department].

## On-site Visits and Results

Date of on-site visits	Results
05/10/2020	Several meetings were held with the concerned departments at the Company in the presence of the internal Shari'a auditor to review departments' work and activities and to audit the statements, transactions and documents required in light of the decisions of the Shari'a Supervisory Board.

## Sixth: Final Independent Opinion and recommendations

The External Shari'a Auditor concluded a final opinion that there were no findings on the transactions executed during the said financial period in accordance with the decisions of the Shari'a Supervisory Board, Shari'a approved provisions and the instructions of the supervisory authorities concerning Shari'a Audit.

External Shari'a Auditor  
Dr. Abdulaziz Khalaf Jarallah



Legal Representative  
Yehia Al Hammadi







---

## Corporate Governance Report 2020

---

## Introduction

Over the past years, A'Ayan Leasing and Investment Company has been working to build a solid base for governance to serve as a key approach in all its operations. Such base is crystalized in approving a set of rules, principles, processes and systems that govern the relations of the Company's board of directors, executive management, shareholders, stakeholders and other related parties with the aim of documenting professional and ethical code of conduct, enhancing control and accountability process and ensuring sound managerial organization.

The Company endeavors in this field proved fruitful and paid off during the past year enabling the Company to withstand with the emergent situation posed by the spread of the Novel Corona Virus – (Covid 19) and the resulting disruption of many sectors in accordance with the plan of the health authorities in the State of Kuwait to confront and mitigate the spread of the virus. The Company continued to remotely provide its services and meet all the requirements of the relevant regulatory authorities.

Many criteria and elements have been approved to ensure that all factors are evaluated in order to achieve sustainability, transparency, confidentiality, accountability and justice. These constitute the main pillars of all our financial and business transactions and practices. They also regulate the relationship between the Company and its shareholders, related parties and stakeholders alike. These pillars also represent the basic approach of A'Ayan's employees in performing their daily duties to maintain compliance with laws, regulations, rules of professional and ethical conduct all under the umbrella of Islamic Sharia principles.

The legal and regulatory framework of A'Ayan's Management approach is derived from the provisions of the Companies Law and its Executive Regulations, the Executive Regulations of the Capital Market Authority's Law No. 7 of 2010 for the Incorporation of the Kuwait Capital Markets Authority "CMA" and the Organization of Securities Activities as amended, the Company's Articles of Association and the policies and procedures manuals approved in line with professional practices of Corporate Governance Rules issued by Kuwait Capital Markets Authority [CMA].

## Rule I

### Constructing a Balanced Board Composition

- **Board of Directors Composition**

The diversity in the academic and professional experiences and specialized skills is the pillar of the formation of A'Ayan Leasing & Investment Company's board of directors. This qualifies the Company to keep pace with the rapid development in the global business environment and the growing business requirements. The Company is managed by an elected Board of Directors regulated by the Company's Articles of Association in terms of the board formation, the number of its members and the term of membership in such a balanced manner that supports the Board fulfillment of its roles and duties, enables the formation of the necessary number of board committees according to the corporate governance requirements. In the board composition, the Company has taken into account the diversity of professional and academic experiences, specialized skills and a full understanding of all the Company's business and the risks to which the Company's financial position may be exposed to with a view to support the process of taking the right decision at the right time.

A'Ayan Board of Directors consists of a chairman and a vice-chairman elected by secret ballot, a majority of non-executive members and a sufficient number of independent members who are assigned tasks within the functions and activities of the board committees associated with the Company's various business to support the process of taking sound decisions in the best interest of the Company as follows:

Board Member	Position	Educational and Practical Experience	Election/ Appointment Date
<b>Mr. Fahed Ali Mohammed Thunayan Al-Ghanim</b>	<b>Board Chairman</b>	<p>Mr. Fahed Ali Mohammed Thunayan Al-Ghanim has over 15 years of professional experience in key positions for managing investment companies inside and outside the State of Kuwait covering various fields of finance, banking, investment and trade activities. He held several positions in various companies such as:</p> <ul style="list-style-type: none"> <li>Member of Board of Directors, Member of the Executive Committee and Member of the Audit &amp; Compliance Committee in Kuwait Finance House "KFH" since 2014.</li> <li>Chairman of the Investment Committee at KFH since 2016;</li> <li>Member of the Merger Committee at KFH since 2018</li> <li>The Chief Executive Officer of Ali Alghanim &amp; Sons Automotive Company since 2005.</li> <li>Vice Chairman of the Board of Directors of Al-Ahlia Heavy Vehicles Selling &amp; Imports Company (MAN TRUCKS) since 2011.</li> <li>Member of the Board of Directors of McLaren Agents Representatives from 2010 to 2015.</li> <li>Member of the Board of directors of Kuwait Building Materials Manufacturing Co. since 2004.</li> <li>Member of the Board of Directors and Fund Custodian of Kuwait Sporting Club since 2007.</li> <li>Member of the Board of Directors of the Universal Payment Services (UPS) since 2005-2011</li> <li>Member of the Board of Directors of Al-Oula Abattoirs Co. W.LL Since 2003-2005</li> <li>Member of Kuwait Engineers Society since 2003</li> </ul> <p>Al-Ghanim completed his studies in Kuwait having BA degree in Civil Engineering from Kuwait University and then started his career as CEO of Alghanim &amp; Sons Group of companies - Contracting Sector. He then held several key positions in various companies and institutions on which he had significant impact on their profitability, growth and financial position.</p>	<b>14/06/2020</b>
<b>Abdulaziz Nasser Al-Marzouq</b>	<b>Vice Chairman</b>	<p>Abdulaziz Al-Marzouq has more than 20 years of professional experience in the fields of financial and banking business, where he held many leading positions in several institutions inside and outside the State of Kuwait in various investment, commercial and financing activities throughout that period. Mr. Al Marzouq holds Several positions in many companies, including:</p> <ul style="list-style-type: none"> <li>Member of the Board of Directors and Chief Executive Officer of KFH Capital Investment Company.</li> </ul> <p>Al Marzouq was graduated from San Jose University, California, USA with a Bachelor of Finance and later received an MBA from London Business School, UK.</p>	<b>14/06/2020</b>

## Corporate Governance Report - 2020

Board Member	Position	Educational and Practical Experience	Election/ Appointment Date
<b>Mansour Hamed Al-Mubarak</b>	<b>Executive Board Member</b>	<p>Al-Mubarak has more than thirty years of professional experience in the financial sector, where he held many leading positions throughout the period. He holds the following positions:</p> <ul style="list-style-type: none"> <li>• Chairman of A'Ayan Real Estate Company.</li> <li>• Member of the Board of Directors of Mashaer Holding Company.</li> <li>• CEO of Aayan Leasing &amp; Investment Company.</li> </ul> <p>A-Mubarak completed his studies in the United States of America with a Bachelor of Business Administration - Finance from Western Michigan University, USA. Mr. Mubarak has dedicated his time and efforts for developing and strengthening the financial position of the company, maximizing revenues, maintaining shareholders' equities and working on commitment of the Company' Financial Rescheduling Plan.</p>	<b>14/06/2020</b>
<b>Talal Mohammed Reda Behbehani</b>	<b>Independent Board Member</b>	<p>Talal Behbehani has professional experience in both investment and commercial fields that enables him to serve as an independent member of the Board of Directors of Aayan Leasing and Investment Company. He has more than 25 years of experience in executive and leading positions at various banking and financial institutions inside and outside Kuwait. Talal Behbehani holds many key positions in various companies including:</p> <ul style="list-style-type: none"> <li>• Chairman of the Board of Directors of Al-Ahli Bank of Kuwait.</li> <li>• Vice Chairman of Kuwait Insurance Company.</li> <li>• General Manager of Mohammed Saleh and Reza Yousef Behbehani.</li> <li>• General Manager of Behbehani Mercantile Motors.</li> <li>• Member of the Board of Directors of Al Mulla &amp; Behbehani Auto Company.</li> </ul> <p>Mr. Behbehani completed his study in the State of Kuwait having BA degree from the Faculty of Arts, English Language, Kuwait University. He was a member of the Board of Directors of the Industrial Bank of Kuwait from 2003 until 2007.</p>	<b>14/06/2020</b>
<b>Riyad Nasser Al-Bader</b>	<b>Non-executive member</b>	<p>Mr. Riyadh Al-Bader has more than 32 years of professional experience. He held many leading and executive positions in various financial and banking institutions including the Commercial Bank of Kuwait and Kuwait Finance House. He is a Senior Private Finance Manager at KFH. Mr. Al-Bader holds a Higher Diploma in Banking Sciences from the Institute of Banking Studies in Kuwait.</p>	<b>14/06/2020</b>



Board Member	Position	Educational and Practical Experience	Election/ Appointment Date
<b>Nasser Ibrahim Boresli</b>	<b>Non-executive member</b>	Mr. Boresli has more than 20 years of experience in the financial and banking sector. He has gone through career development at the Commercial Bank of Kuwait to take up the position of Deputy General Manager, Commercial Credit Division. Mr. Boresli graduated from the University of San Bernardino, California, USA having BA in Management - with focus on General Administration.	<b>14/06/2020</b>
<b>Muhannad Mohamed Al-Sanea</b>	<b>Independent Board Member</b>	Mr. Al-Sanea has more than twenty years of professional experience in many investment and business fields and held leading positions such as Chairman and CEO of Al Reyada Finance and Investment Company KSCC, and a member of the Board of Directors of KFHH Financial Brokerage Company. In addition to his long management experience in the field of financial and banking services (Burgan Bank - Ahli United Bank), Mr. Al-Sanea holds a Bachelor of Commerce - Accounting Department from Kuwait University, as well as certificates in Real Estate Management, Leading and Building a Culture of Innovation, Developing Leadership Skills and Management Diploma from Harvard Business School, USA.	<b>14/06/2020</b>
<b>Abdullah Mohammad Al-Shatti</b>	<b>The Board Secretary</b>	Mr. Al Shatti joined A'Ayan Leasing and Investment Company in 2006. He has more than 12 years of professional experience in the field of investment. He started his career at the Engineering Training Program of the Kuwait Fund for Arab Economic Development. He then moved to the Private Wealth Management Department at Kuwait Financial Center Company. Then he joined A'Ayan Leasing and Investment Company where he went through career development and held many positions till promoted to CEO. He is a member of the Board of Directors of several investment and real estate companies inside and outside the State of Kuwait, including the Chairman of the Board of Directors of Mubarak Transport Company (a listed company in Boursa Kuwait Securities market), Annan Company for Real Estate Finance and A'Ayan Real Estate Company.  Al-Shatti has BA in Computer Engineering from Kuwait University, an MBA from The Hong Kong University of Science and Technology and a Certified Financial Analyst (CFA).	<b>14/06/2020</b>

## • Meetings of the Board of Directors

The Board of Directors holds at least six regular meetings in the financial year in presence of the majority of its members at the invitation of the Board Chairman or at the request of at least two members. The members of the Board are provided with the agenda and related documents at least three days before the meeting date so that the members can study the issues raised to the meeting and take appropriate decisions thereon. The Company's Articles of Association governs the process of organizing members' attendance at the meetings as well as the process for dealing with cases of members' unpunctuality in attending the board meetings. The board meetings for the fiscal year ended 31 December 2020 were as follows:

## Corporate Governance Report - 2020

Board Member	Meeting (1) 29/01/2020	Meeting (2) 17/02/2020	Meeting (3) 09/03/2020	Meeting (4) 14/06/2020	Meeting (5) 12/08/2020	Meeting (6) 12/11/2020	No. of Meetings
<b>Fahed A. Al-Ghanim</b> Board Chairman	✓	✓	✓	✓	✓	✓	6
<b>Abdulaziz N. Al-Marzouq</b> Vice Chairman	✓	✓	✓	✓	✓	✓	6
<b>Mansour H. Al-Mubarak</b> Board Member	✓	✓	✓	✓	✓	✓	6
<b>Talal M. R. Behbehani</b> Independent Board Member	✓	✓	✓	✓	✓	Apologized	5
<b>Nasser I. Boresli</b> Board Member	✓	✓	✓	✓	✓	✓	6
<b>Riyad N. Al-Bader</b> Board Member	✓	✓	✓	✓	✓	✓	6
<b>Khaled B. Al-Roumi</b> Ex- Board Member	✓	✓	✓	-	-	-	3
<b>Muhannad M. Al-Sanea , Independent</b> Board Member	-	-	-	✓	✓	Apologized	2

Note: Mr. Khaled Bader Al-Roumi has been discharged from the Board of Directors on 14 June 2020 while Mr. Muhannad Mohamed Al-Sanea was elected as an independent board member as per the elections of the members of the Board of Directors at the General Meeting held on 14 June 2020.

### Recording, coordinating and keeping the minutes of the Board of Directors Meetings

The Board of Directors has appointed a Secretary of the Board amongst the Company's employees acting in accordance with the board-approved duties and responsibilities manual. This manual defines and ensures that the Board secretary undertakes his duties as per the rules of Corporate Governance mandated by the Executive Regulations of Law No. 7 of 2010 concerning the Capital Markets Authority Incorporation and Regulation of Securities as amended.

The Board Secretary provides members of the Board with sufficient and relevant information on the items to be discussed at least three working days before the board meetings to enable the members to study them before taking the appropriate decisions. The Board Secretary also records all discussions of the members of the Board during each meeting in written minutes serialized and ordered in a special register. The attending members, their votes on the decisions taken during the meeting are written down and members signatures on the minutes are obtained.

The Secretary ensures sound delivery and dissemination of the reports, information, documents and agendas relevant to the Board's duties in timely manner. In addition, he ensures that the members have full and timely access to information, documents and records of the Company in orderly and organized manner. He provides the Board of Directors and the Board committees with all documents, information and periodic reports of relevance to the Company's various activities issued by the Company's Executive Management.

## Rule II

### Proper Identification of Duties and Responsibilities

Duties and Responsibilities of the Members of the Board of Directors:

A'Ayan Board of Directors has all the powers and authorities necessary to manage the Company. The ultimate responsibility for the Company's management remains with the Board even if it sets up committees or delegates other entities or people to do so. The members of the Board of Directors define the general framework of governance and supervise the process of its implementation in accordance with the rules of professional and ethical code of conduct in consistency with the principles and provisions of the honorable Islamic Sharia. As well, the Board works to preserve and promote the rights of shareholders.

The Company's Articles of Association stipulates the responsibilities and duties of the members of the Board of Directors in line with the rules provided for in the Companies Law and the Executive Regulations of Law No. 7 of 2010 concerning the Incorporation of the Capital Market Authority and the Regulation of Securities Activities as amended in a manner that crystallizes and defines those tasks and combines them into a single document that reflects the details of those provisions. The Board has approved its internal charter and job descriptions for the members of the Board of Directors and the chairman, which reflect and define the various tasks, responsibilities and duties of the Board of Directors and the members of the board towards the Company.

### **Duties and responsibilities of the executive management and its vested powers and authorities:**

The Executive Management of the Company undertakes many duties and responsibilities in the light of the powers and authorities conferred on the executive management by the Board of Directors, the most important of which are: Implementing the strategy and the annual plan through the policies, regulations and charters approved by the Board, preparing periodic financial and non-financial reports on the progress achieved on the Company's plans and strategy, raising such reports to the Board of Directors, managing the daily activities of the Company, ensuring that there is in place an accurate accounting system that reflects in detail the financial statements and income computations and accounts, working on maximizing profits and cutting down expenses in light of the approved strategy and effective participation in creating and developing a culture of ethical values in the Company. The Executive Management operates according to work policies approved by the Board of Directors.

In enforcement of the approved policies and procedures and for supporting the Executive Management to efficiently undertake its duties and functions, the Board of Directors has approved the financial and administrative authority matrix that regulates the authorities and powers as well as the delegations granted to the Executive Management in a manner that supports the process of quick decision taking by the authorized personnel while taking into account fair allocation of powers to achieve the highest control levels when implementing decisions in line with best practices in corporate governance.

### **Board members access to information and data**

The Company uses direct and indirect platforms and channels of communication that enable the members of the board of directors in general and independent and non-executive members in particular to get full and immediate access to all information, documents and records related to the Company's business. The executive management provides the board of directors and the Board committees with all required documents and information through automated information systems that generate periodic reports or through direct communication with the concerned departments, as well as reports issued by the Board committees to enable Board members to take appropriate decisions effectively and in timely manner.

### **A'Ayan Board of Directors' Key highlights for the financial year ended December 2020**

- Monitoring the performance of the Company's various sectors and the key updates periodically.
- Reviewing and approving the Company's departments policies and procedures regularly and following up compliance thereof.
- Monitoring the extent of the Company's compliance with the instructions issued by the regulatory bodies and discussing the Executive Management about the violations imposed by the supervisory authorities and ensuring their remedy;
- Approving the Company's annual action plan;
- Discussing and approving the financial statements of the Company on the set times;
- Following up the activities of the various Board committees to periodically decide on the key issues discussed;
- Discussing the latest developments in the Company's Financial Liabilities Restructuring Plan on an ongoing basis and directing the Executive Management to take the necessary measures in the best interest of the company.

### **Formation of the Board Committees**

The Board of Directors forms and approves sufficient number of board committees in accordance with approved bylaws, rules and charters that reflect and define the tasks and duration of these committees and the powers conferred into them and ensure the Board oversight on their work. The Committees have to advise the board on the results of their work and the findings and the conclusions reached under absolute transparency. The Board Committees shoulder the full responsibility for their actions before the Board in a way that does not preclude the board of directors from the ultimate responsibility of following up the activities of the board committees.

## First: Audit Committee:

### Duties of the Audit Committee:

1. Reviewing the periodic financial statements before submitting them to the Board of Directors, expressing opinion and recommendation and submitting them to the Board of Directors, with a view to ensure fair and transparent financial reports.
2. Raising recommendation to the Board of Directors on the appointment and reappointment of external auditors, changing or fixing their fees. When recommending the appointment of the external auditors, consideration should be given to ensure their independence and reviewing their engagement letters.
- 3.. Following up the external auditors work and ensuring that they do not provide services to the Company other than the services necessary for the audit profession.
- 4.. Studying external auditors' observations on the company's financial statements and following up actions taken in this regard.
- 5.. Studying the accounting policies used and expressing opinion and recommendation to the Board of Directors.
- 6.. Evaluating the adequacy of the internal control systems applied in the Company and preparing a report that demonstrate the Committee's opinion and recommendations in this regard.
- 7.. Performing technical supervision on the company's Internal Audit Department to ensure its effectiveness in carrying out the tasks and duties set by the Board of Directors.
- 8.. Recommending the appointment of the chief internal auditor, his transfer, removal, and evaluation of his performance and the performance of the Internal Audit Department.
- 9.. Reviewing and approving the audit plans proposed by the chief internal auditor, and making observations thereon.
- 10.. Reviewing the findings of the internal audit reports, and ensuring that the necessary corrective actions have been taken regarding the observations in the reports.
- 11.. Reviewing the findings in the regulatory authorities reports and ensuring that the necessary measures have been taken in this regard.
- 12.. Ensuring that the Company complies with the relevant laws, policies, regulations and instructions.

### • Meetings of the Audit Committee during the financial year ended 31 December 2020

The Committee held 6 meetings during the financial year ended 31 December 2020 as follows:

Members of the Committee formed on 1/5/2017 and 14/6/202	Meeting No	1	2	3	4	5	6
	Meeting date	28/01/2020	17/02/2020	10/03/2020	28/04/2020	11/08/2020	12/11/2020
Abdulaziz N. Al-Marzouq	Chairman of the Committee	✓	✓	✓	✓	✓	✓
Riyad N. Al-Bader	Member	✓	✓	✓	✓	✓	✓
Talal Behbehani	Member	✓	✓	✓	✓	✓	Apologized

### • Audit Committee Key Achievements for the Year ended 31 December 2020

- Discussing internal audit reports periodically, and giving necessary recommendations for resolving issues raised in the reports.
- Discussing internal control review report, and giving necessary recommendations for resolving issues raised in the report.
- Approving the Company's annual Internal Audit Plan
- Discussing the violations raised by regulatory authorities and give recommendations to the Board for resolution.
- Meeting the external auditor periodically and discussing the interim financial statements to better be aware of the Company's financial position.
- Discussing and reviewing audit activities, policies and procedures manuals.

## Second: Risk Management Committee

### Duties of Risk Management Committee

1. Prepare and review risk management strategies and policies before being approved by the Board of Directors, and ensure that these strategies and policies are implemented, and that they are commensurate with the nature and size of the Company's activities.
2. Ensure the availability of adequate resources and systems for the Risk Management Department.
3. Evaluate the systems and processes for identifying, measuring, and following up the different risk types that the Company may be exposed to, in order to determine deficiencies.
4. Assist the Board of Directors in determining and assessing the acceptable level of risk (risk appetite) in the Company, and ensure that the Company does not exceed this risk level after being approved by the Board of Directors.
5. Review the organizational structure of Risk Management Department and make recommendations thereon before it is approved by the Board of Directors.
6. Ensure the risk management staff's independence of the activities that may result in the Company's exposure to risks.
7. Ensure that risk management staff have a full understanding of the risks associated with the Company, and working to increase staff awareness of the risk culture.
8. Prepare periodic reports on the nature of the risks to which the Company is exposed, and submitting these reports to the Company's board of directors.
9. Review the issues raised by the Board Audit Committee that may affect the Company's risk management.

### • Meetings of the Risk Committee during the financial year ended 31 December 2020

The Committee held 4 meetings during the financial year 2020 as follows:

Members of the Committee formed on 1/5/2017 and 14/6/2020	Meeting No.	1	2	3	4
	Meeting date	09/02/2020	17/02/2020	12/08/2020	31/12/2020
Talal Behbehani	Chairman of the Committee	✓	✓	✓	✓
Riyad N. Al-Bader	Member	✓	✓	✓	✓
Nasser Borousli	Member	✓	✓	✓	✓

### • Risk Committee Key Achievements for the Year ended 31 December 2020

- Discussing the risks to which the Company has been exposed periodically and giving the necessary recommendations to the executive management to deal with these risks.
- Discussing the transactions that might raise conflict of interests with related parties (subsidiaries and associates) and ensuring the integrity of the measures taken.
- Reviewing several policies and procedures related to the Company's risk management activities.

## Third: Nomination and Remuneration Committee

### Duties of the Nomination and Remuneration Committee

1. Raising recommendations to accept the nomination and re-nomination of the members of the Board of Directors and the Executive Management.
2. Setting a clear policy for the remuneration of the members of the Board of Directors and the Executive Management, with an annual review of the requirements of appropriate skills for membership of the Board of Directors.
3. Attracting applications from those wishing to occupy executive positions, as needed, and study and review these applications.
4. Determining the various packages of remuneration that will be awarded to employees, such as the fixed remuneration, performance-related rewards, the share-based payments and the end-of-service indemnity.

5. Setting job descriptions for Executive Board members, non-executive members, and independent members.
6. Ensuring that the independence status of the independent board member is not impaired.
7. Preparing a detailed annual report on all remunerations granted to members of the Board of Directors and the Executive Management to be presented to the Company's General Assembly Meeting for approval. That report should be recited by the Chairman of the Board of Directors as per the approved format.
8. Studying and approving the Guideline Manual for the evaluation process of the Board of Directors and the Company's Executive Management.

- **Meetings of the Nomination and Remuneration Committee during the Year ended 31 December 2020:**

The Committee held 4 meetings during the financial year 2020 as follows:

Members of the Committee formed on 1/5/2017 and 14/6/2020	Meeting No.	1	2	3	4
	Meeting date	09/01/2020	17/02/2020	12/08/2020	12/11/2020
Abdulaziz N. Al-Marzouq,	Chairman of the Committee	✓	✓	✓	✓
Mansour Al-Mubarak	Member	✓	✓	✓	✓
Talal Behbehani	Member	✓	✓	✓	Apologized

- **Nomination and Remuneration Committee Key Achievements for the Year ended 31 December 2020**

The Committee has acted in accordance with A'Ayan Board of Directors approved Remunerations Policy and in line with the Company's strategy for attracting and retaining highly skilled and qualified professionals capable of delivering the tasks assigned to them efficiently and effectively.

The Remunerations Policy has been linked with the performance of the Company in general and the performance of the Company's departments in particular as well as the associated risks.

Issuing the annual report in accordance with the regulatory requirements to disclose the remuneration granted to the members of the Board of Directors and the Executive Management as per the rules of Corporate Governance under the Executive Regulations of Law No. 7 of 2010 concerning the Incorporation of the Capital Market Authority and the Regulation of Securities as amended. That report should be recited by the chairman of the board of directors in Company Annual General Meeting Assembly.

The above committees perform their roles in accordance with the approved charters and regulations that clearly define their term, tasks, responsibilities and powers, as well as their delegation by the Board of Directors to undertake their tasks perfectly.

## Rule III

### Selecting qualified candidates for membership of the Board of Directors and the Executive Management

#### Nominations and Remuneration Committee:

To ensure that the Board of Directors prepares the recommendations related to the nominations for the positions of members of the Board of Directors and the executive management and the policies and procedures regulating the granting of compensation and remunerations, the Board of Directors has approved the formation of the Nomination and Remuneration Committee and vested it the authorities to carry out its role thoroughly. The Nomination and Remuneration Committee was formed on 01/05/2017 and then reformed on 14/6/2020 approving the same previous formation. The Committee's is co-terminus the Board of Directors' term (i.e. three years). The Committee is composed of three members and holds periodic meetings; minimum one meeting during the financial year.

#### Report on the Remunerations to the Members of the Board of Directors and the Executive Management:

The Committee works in accordance with the approved general framework to determine the remuneration of the members of the Board of Directors according to the provisions of Article No. [198] of the Companies Law No. 1 of 2016, as well as the requirements of the XV Rulebook "Corporate Governance" of the Executive Regulations of Law No. 7 For the Year 2010 regarding the Incorporation of the Capital Markets Authority. The Committee ensures that the Remuneration Report is then presented to the General Assembly for approval. The remunerations for both the members of the Board of Directors and the Executive Management were as follows:

## • Remuneration and Benefits to the Board of Directors:

The remuneration of the Board of Directors is presented as a separate item to the Ordinary General Assembly held to approve the Company's business results. The following is a statement of the remunerations for 2020:

- o Members of A'Ayan Board of Directors have not received any financial rewards for the financial year 2020.
- o The executive members of A'Ayan Board of Directors have received remunerations and benefits directly and indirectly amounting KD 11,440 for the financial year 2020.

## • Remuneration and Benefits to the Executive Management:

The Board Nomination and Remuneration Committee approved the recommendation for the Executive Management's remuneration and benefits. The following statement highlights the highest category of the Company's Executive Management, with the analysis of the remunerations granted by type, whether in cash, benefits or privileges approved directly or indirectly by the Company or its subsidiaries

Categories	No.	Direct Remuneration						Total	Indirect Remuneration /5
		Fixed Benefits/ 3					Variable benefits /4 Performance Bonus		
		Basic Salaries	Car Allowance	Phone Allowance	Travel Allowance	Other benefits/ Medical Insurance			
Senior Executive Management/ 1	5	319468	23867	11059	8400	6125	169190	538109	5000
Executive Management for Financial and Control Positions/2	3	90542	8400	5100	0	3185	41868	149095	0
Total	8	410010	32267	16159	8400	9310	211058	687204	5000

\*The detailed report on all remunerations granted to the members of the Board of Directors and the Executive Management, whether cash or in-kind benefits should be presented to the Ordinary General Assembly for the fiscal year ended 31 December 2020 by the Board Chairman. The report should also be made available for review by the shareholders at the Investor Relations Unit at the company

1. Senior Executive Management Category: This category includes the positions of the Chief Executive Officer, his deputies and assistants other than the financial and supervisory positions.
2. Executive Management Category for Financial and Supervisory Functions: This category includes the heads of financial (Chief Financial Officer) and Supervisory functions.
3. Fixed Remunerations: these comprise the basic salary represented by the annual total of monthly salary for all categories while Fixed Allowances represent the total annual amount of the fixed monthly benefits given to employees in accordance with their contracts such as (telephone allowance, transport allowance, travel allowance, medical insurance) according to the approved Human Resources Policy at the Company.
4. Variable Benefits: These include the annual bonuses associated with achieving objectives in accordance with the annual performance appraisal process approved by the Board of Directors in coordination with the Nominations and Remuneration Committee.
5. Indirect Benefits include the annual bonuses granted by other companies to the representative of A'Ayan Company in their Board of Directors according to the annual performance assessment process approved by the boards of these companies through the Board Nomination and Remuneration Committees and approved by the General Assemblies of those companies.

The Company's employees also enjoy other benefits being the Medical Insurance for the employee and his / her family members according to the job grade in line with the approved Regulations.

## Rule IV

### Ensuring the Integrity of the Financial Reporting

Integrity of the Financial Reports:

The integrity and soundness of the Company's financial statements and related reports is a key pillar and significant indicator of the transparency and credibility of the Company's fair presentation of its financial position. This enhances investors' trust in data and information and allows them to pursue their rights. To achieve this, the Company has applied mechanisms and frameworks that enhance the integrity and fair presentation of the financial statements and related reports by establishing clear and specific processes and systems in accordance with the international accounting standards, supervising them through the Company's Audit Committee and getting them reviewed by an independent external auditor appointed by the shareholders general assembly. In addition, to enhance the accountability process, the executive management provides undertakings on the fairness and integrity of the financial reports presented to the Board of Directors, which in turn, provides the necessary undertakings to the shareholders on the integrity and soundness of the financial statements and related reports.

### Board of Directors' Undertaking on the Integrity and Soundness of the Financial Statements and related reports:

To the Shareholders of A'Ayan Leasing and Investment Company

The Board of Directors hereby undertakes that it has reviewed the financial statements of A'Ayan Leasing and Investment Company for the fiscal year ended 31 December 2020.

Based on the information we have, this report does not contain any misstatement of material information, and that no fundamental or significant information has been omitted to make the presented information misleading under the circumstances in which such statements have been made for the reporting period.

Based on the information we have, the financial statements and other financial information provided in this report present fairly, in all material respects, the financial position, results of operations and cash flows recorded as at 31 December 2020 and for the reporting period.

We and the Executive Management undertake the responsibility for preparing and updating the disclosure procedures as well as internal control systems for preparing the Company's financial reports. We have undertaken the following:

1. Designing the procedures for disclosure and transparency in accordance with Law No. 7/2010 and its executive regulations as amended – Rule Book 10 "Disclosure and Transparency".
2. Designing internal control systems to ensure that we have access to them and provide us with material information on the Company and its subsidiaries which is provided to us by others in those entities, particularly during the period for which this report is prepared.
3. Designing internal controls for the financial reporting process and that the design of the internal controls is under our supervision to provide reasonable assurance on the reliability of the financial reports and the preparation of the financial statements for external purposes in accordance with the International Financial Reporting Standards.
4. Evaluating the effectiveness of the internal control systems.

This report incorporates our conclusion on the effectiveness of the disclosure controls and procedures as at 31 December 2020, covered in this report based on such controls.

We have disclosed in this report any changes to the Company's internal control systems and to the financial reporting process during the financial year ended 31 December 2020 which may materially affect the Company's internal control systems and the preparation of financial reports.

Based on the latest evaluation of the internal controls on the financial reporting, we and the Executive Management have disclosed to the Company's Auditors about all significant deficiencies and weaknesses in the design or implementation of the internal controls on the financial reporting process which may adversely impact the Company's ability to record, process, summarize and prepare the financial statements.

We have also disclosed any fraud or forgery, whether material or immaterial, involving a member of the Board of Directors or a member of the Executive Management or other employees who have significant roles in the Company's internal control systems and the preparation of financial statements.

Fahed A.  
Al-Ghanim

Board Chairman



Abdulaziz N.  
Al-Marzouq

Vice Chairman



Mansour H.  
Al-Mubarak

Board Member



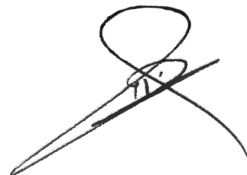
Talal M. R.  
Behbehani

Independent Board  
Member



Nasser I. Boresli

Board Member



Riyad N. Al-Bader

Board Member



Muhannad M.  
Al-Sanea

Independent Board  
Member





### Executive Management's Undertaking on the Integrity and Soundness of the Financial Reports:

#### To the Members of the Board of Directors

I, Abdullah Mohammad Al-Shatti, in my capacity the Company's Chief Executive Officer, declare that I have reviewed the financial statements of A'Ayan Leasing and Investment Company for the financial year ended 31 December 2020.

Based on the information I have, this report does not contain any misstatement of material information, and that no fundamental or significant information has been omitted to make the presented information misleading under the circumstances in which such statements have been made for the reporting period.

Based on the information I have, the financial statements and other financial information provided in this report present fairly, in all material respects, the financial position, results of operations and cash flows recorded as at 31 December 2020 and for the reporting period.

I and the Executive Management bear the responsibility for preparing and updating the disclosure procedures as well as the internal control systems for preparing the Company's financial reports. We have undertaken the following:

1. Designing the procedures for disclosure and transparency in accordance with Law No. 7/2010 and its executive regulations as amended – Rule Book 10 "Disclosure and Transparency".
2. Designing internal control systems to ensure that we have access to them and provide us with material information on the Company and its subsidiaries which is provided to us by others in those entities, particularly during the period for which this report is prepared.
3. Designing internal controls for the financial reporting process and that the design of the internal controls is under our supervision to provide reasonable assurance on the reliability of the financial reports and the preparation of the financial statements for external purposes in accordance with the International Financial Reporting Standards.
4. Evaluating the effectiveness of the internal control systems

This report incorporates our conclusion on the effectiveness of the disclosure controls and procedures as at 31 December 2020, covered in this report based on such controls.

We have disclosed in this report any changes to the Company's internal control systems and to the financial reporting process during the financial year ended 31 December 2020 which may materially affect the Company's internal control systems and the preparation of financial reports.

Based on the latest evaluation of the internal controls on the financial reporting, I and the Executive Management have disclosed to the Company's Auditors and the Board Audit Committee about all significant deficiencies and weaknesses in the design or implementation of the internal controls on the financial reporting process which may adversely impact the Company's ability to record, process, summarize and prepare the financial statements.

We have also disclosed any fraud or forgery, whether material or immaterial, involving a member of the Executive Management or other employees who have significant roles in the Company's internal control systems and the preparation of financial statements.



**Abdullah Mohammed Al-Shatti**  
The Chief Executive Officer

## Chief Financial Officer's Declaration to the Board of Directors on the Integrity of the Financial Reports

I, Muhyideen Seyed Abu Tahir Solukku, in my capacity the Company's Chief Financial Officer, declare that I have reviewed the financial statements of A'Ayan Leasing and Investment Company for the financial year ended 31 December 2020.

Based on the information I have, this report does not contain any misstatement of material information, and that no fundamental or significant information has been omitted to make the presented information misleading under the circumstances in which such statements have been made for the reporting period.

Based on the information I have, the financial statements and other financial information provided in this report present fairly, in all material respects, the financial position, results of operations and cash flows recorded as at 31 December 2020 and for the reporting period.

I and the Executive Management bear the responsibility for preparing and updating the disclosure procedures as well as the internal control systems for preparing the Company's financial reports. We have undertaken the following:

1. Designing the procedures for disclosure and transparency in accordance with Law No. 7/2010 and its executive regulations as amended – Rule Book 10 "Disclosure and Transparency".
2. Designing internal control systems to ensure that we have access to them and provide us with material information on the Company and its subsidiaries which is provided to us by others in those entities, particularly during the period for which this report is prepared.
3. Designing internal controls for the financial reporting process and that the design of the internal controls is under our supervision to provide reasonable assurance on the reliability of the financial reports and the preparation of the financial statements for external purposes in accordance with the International Financial Reporting Standards.
4. Evaluating the effectiveness of the internal control systems

This report incorporates our conclusion on the effectiveness of the disclosure controls and procedures as at 31 December 2020, covered in this report based on such controls.

We have disclosed in this report any changes to the Company's internal control systems and to the financial reporting process during the financial year ended 31 December 2020 which may materially affect the Company's internal control systems and the preparation of financial reports.

Based on the latest evaluation of the internal controls on the financial reporting, I and the Executive Management have disclosed to the Company's Auditors and the Board Audit Committee about all significant deficiencies and weaknesses in the design or implementation of the internal controls on the financial reporting process which may adversely impact the Company's ability to record, process, summarize and prepare the financial statements.

We have also disclosed any fraud or forgery, whether material or immaterial, involving a member of the Executive Management or other employees who have significant roles in the Company's internal control systems and the preparation of financial statements.



Muhyideen Seyed Abu Tahir Solukku  
Chief Financial Officer

## Board Audit Committee

A'Ayan Company Board of Directors strongly believes that having an independent audit committee with qualified human and technical cadres is a key features illustrating the implementation of sound corporate governance rules. The Audit Committee works on deepening the culture of compliance across the Company by ensuring the integrity of the Company's financial reporting, the sufficiency and effectiveness of the internal control systems applied in the Company. The Audit Committee was formed on 05/01/2017 and 14/06/2020 for a period co-terminus the board of directors (i.e. three years). It is composed of three members. The Committee holds at least four meetings during the fiscal year on a quarterly basis.

In the event that there is conflict between the recommendations of the Audit Committee and the decisions of the board within the internal audit policies and procedures manual approved by the Board, the Board of Directors should decide and declare the reasons for not adhering with the recommendation of the Audit Committee. It should be noted that during the fiscal year ending on December 31, 2020, there was no conflict between the recommendations of the Company's Audit Committee and the decisions of the Board of Directors.

## External Auditor's Independence & Neutrality

A'Ayan Company has complied to the requirement of appointing an auditor registered and approved by the Capital Markets Authority and independent of the Company and its Board of Directors after being approved by the Company's General Assembly. Accordingly and based on satisfying the independence conditions, the Audit Committee issued recommendation to the Board of directors for engaging Ernst & Young- Al-Aiban, Al-Osaimi & Partners – Bader Adel Al Abduljader as the Company's external auditor to provide review and audit services of the Company's financial statements. This engagement is based on the high standard professionalism and efficiency of the Audit firm recognized globally, regionally and locally in this field.

## Rule V

### Developing sound risk management and internal control systems

#### Risk Management Unit "RMU"

The organizational structure of the Company incorporates an independent unit for risk management in accordance with Capital Markets Authority's instructions. The Risk Management Unit's personnel are skilled professionals having technical abilities that qualify them to undertake their duties. In addition, they are fully independent reporting directly to the Board Risk Committee. The Unit is mainly engaged in measuring, monitoring and mitigating all types of risks and fluctuations facing the Company by exercising its functions and duties. RMU also submits recommendations to the Board of Directors on deals and transactions that the Company may have with related parties.

The Risk Management Unit submits periodic reports to the Board of Directors on the analysis of risks to which the Company may be exposed in addition to satisfying CMA requirements in this regard.

#### Board Risk Committee "BRC"

To ensure the ability to understand and analyze the nature and volume of the risks facing the Company's activities and to mitigate them as much as possible, to determine the appropriate measure for handling them, to determine the internal or external factors that have led or may lead to such risks and to develop processes to address such risks, the Board of Directors has approved the formation of the Board Risk Committee "BRC" to assist the Board in carrying out this key role. The Board Risk Committee was formed on 05/01/2017 and 14/6/2020 with three members and for a period co-terminus the Board of Directors (i.e. three years). BRC holds at least four periodic meetings during the fiscal year.

## Internal Controls

The Company has set an internal control system that provides reasonable assurance of effective and appropriate controls. It includes various controls whether financial and non-financial, processes and compliance with laws and regulations. The Board of Directors regularly reviews these procedures through the key board committees. The efficiency of controls is reviewed from time to time in the Company's relevant departments by performing regular review and internal audit on departments across the Company.

## Internal Audit Department

The organizational structure of A'Ayan Company encompasses an independent Internal Audit Department "IAD", technically reporting to the Board Audit Committee. The Board of Directors appoints the chief internal auditor based on the nomination of the Board Audit Committee. The responsibilities and duties of the IAD are determined and approved by the Board of Directors. The IAD mainly undertakes monitoring function to ensure the effectiveness and efficiency of the Company's internal control systems and the accuracy and integrity of the financial statements and management processes. It also monitors the implications of the risk factors facing the Company and the systems in place to determine the extent of the daily operations efficiency and to face unexpected market volatilities.

## Rule VI

### Enhancing Professional and Ethical Code of Conduct

#### Standards and Parameters of Professional and Ethical Code of Conduct

Promoting the culture of professional conduct and ethical values across the Company is a key pillar for performing business activities. Therefore, The Board of Directors pays great attention to ensure commitment of all members of the Board of Directors, executive management and other employees with the internal policies and regulations in force, and the approved professional and ethical code of conduct within the framework of the principles of Islamic Sharia, without neglecting the legal and regulatory requirements and the decisions issued by the supervisory bodies that regulate the Company's business. This approach is based on our view and belief that this pillar is one of the key fundamentals that positively affect the interests of all related parties of A'Ayan, particularly, the shareholders. In applying this approach, the company considers avoiding any conflict of interest and demonstrates the highest level of clarity and transparency.

#### Conflict of interest Policies and Procedures

The Company's Board of Directors has approved Conflict of interest Policy in accordance with the Corporate Governance Instructions to ensure that the Company provides its services in a fair and sound manner and to prevent exploiting transactions where any of the Company's stakeholders may be a party therein. This policy also ensures that the company handles conflict of interest cases between the Company and its stakeholders, and between the Company and its customers. The policy ensures that the Company keeps the General Assembly informed of any transactions and contracts concluded with related parties.

## Rule VII

### Accurate and Timely Disclosure & Transparency

#### Disclosure & Transparency

The Company recognizes the vital role of disclosure and transparency principles, which ensure integrity and credibility for traders in the stock market, for the interest of the Company's shareholders, all dealers and for positive effect on the Company reputation at local and regional levels. Therefore, Disclosure and Transparency Policies and Procedures Manual has been approved in accordance with the Corporate Governance Rules. This Manual regulates disclosures of the Company's material information, as well as insider transactions and declaration of interests to ensure full transparency, integrity and fairness.

The Company has a record of all disclosures to Boursa Kuwait and the Capital Markets Authority plus Disclosures Register on the Company's website to enhance the Company's accountability and transparency and integrity.

#### Members of the Board of Directors and Executive Management Disclosures:

The Company has a special register where insiders are identified and trading disclosures are recorded for the Company shares listed in the Kuwait Stock Exchange by members of the Board of Directors, the executive management and first degree members of their families as well as their dealings with the Company. These dealings should be conducted in a manner that reflects the reality of the relationship and interests with the Company. This register is maintained in compliance with the instructions of the Capital Markets Authority regulating these issues. This register, kept at the Investors Relations Unit, is made available for all the shareholders of the company for review free of charge at the official working hours of the Company. This record is subject to continuous periodic update.

### Investors Relations Unit:

To ensure opening comprehensive communication channels with all shareholders, an independent unit for shareholders' affairs has been established reporting to the Company's board of directors. It undertakes its role in working to create close and overall communication channels with all the Company's shareholders and transparently providing the necessary data, information and reports for both current and potential shareholders, and enabling the Company's shareholders to access information in a timely manner using the approved means of disclosure, including the Company's website.

### Developing the IT Infrastructure for Disclosure Processes:

The Company has been working for the past years to upgrade the infrastructure of the Company's information technology and automate all its operations, work to diversify the communication channels with shareholders, investors and stakeholders and keep up with the automation of the official disclosure channels approved by CMA. The Company registers and trains its concerned staff as users of these systems. Last year, the Company carried out a comprehensive upgrade of its website in accordance with the latest standards to ensure updating the corporate governance and the disclosures sections. This ensures presenting the Company's all information, data and reports in an up-to-date manner reflecting the current status of the Company to all existing and potential shareholders and stakeholders.

## Rule IIX

### Respecting Shareholders' Rights

#### Shareholders' Rights

A'Ayan Board of Directors and Executive Management work to represent the interests of all shareholders, respect their rights and ensure fair and equal treatment for them all. They safeguard all the shareholders rights, provide them with support and enhance their confidence in the Company by opening direct communication channels with all investors to enable them get access to the information, data and reports about the Company's business through the Investors Relations Unit.

#### Shareholding Records

The Company's shareholders Register is kept at a clearing agency, licensed by the competent regulatory authorities, with the names of shareholders, their nationalities and the number of shares owned by each of them for ensuring ongoing follow-up of shareholders' information. For this purpose, the Company Board has approved Shareholders' Rights Protection Policy to safeguard all their rights.

#### Encouraging Shareholders to Participate at the General Assembly Meetings

The Company cares for encouraging shareholders to have active participation in the meetings of the general assembly of the Company and ensures replying to their inquiries to form an overall view. It also encourages shareholders to exercise their rights stipulated in the Company's Articles of Association, the laws and regulations governing this affair. The Investor Relations Unit is assigned and empowered to undertake this role in accordance with the policy approved By the Board of Directors.

## Rule IX

### Recognizing Stakeholders Role

#### Protecting and Recognizing Stakeholders Rights

In view of stakeholders' major contributions as an important resource in building the competitive edge of the Company, maximizing and developing its levels of profitability, the Board of Directors has approved, within Company's set of policies and procedures, a special policy for the process of recognizing and protecting stakeholders' rights and achieving cooperation between stakeholders and the Company within the framework of the applicable laws and regulations. This policy includes safeguards that the same terms and conditions are applied on all stakeholders without any preferential treatment and a compensation mechanism governed by regulations and protected by contracts. It also indicates how to establish good relations with customers and suppliers and settlement of complaints and disputes that may arise between the Company and stakeholders.

## Encouraging Stakeholders to Participate in following up the Company's Activities:

The Company is committed to applying clear and transparent procedures in dealing with stakeholders in accordance with the stakeholders' policy approved by the Board of Directors. This policy ensures that stakeholders are encouraged to participate and follow up the Company's various activities. The Company develops communication channels marked by openness and transparency mainly through the Company's website and deals with the stakeholders in directly and clearly manner on basis of honesty and respect. It adopts mechanisms that enable stakeholders to raise their concerns to the board of directors about any improper practices and provides them with due protection in accordance with the whistle blowing and protection policy approved by the Board of Directors. This enhances customers' confidence in the Company and the various investment services and products it provides.

## Rule X.

### Performance Enhancement & Improvement

#### Training Programs for Members of the Board of Directors and Executive Management

Policies and procedures related to the board members and executive management training aim at developing their skills and deepening knowledge to ensure that they are kept abreast of the latest developments in the fields of investment, finance, economics, management, corporate governance and risk management, and in particular, the aspects of combating money laundering and the financing of terrorism to keep pace with the latest measures and global trends in this field.

#### Performance Appraisal

The performance of the members of the Board of Directors and the Executive Management is measured in line with the Key Performance Indicators Manual for the Members of Board of Directors, the Board Committees and the Executive Management. This Manual has been approved by the Board of Directors in accordance with the Corporate Governance Rules. It applies financial and non-financial parameters to measure the Company's performance development and progress towards achieving its objectives. Further, it assesses the performance and efficiency of the Board of directors and the Executive Management.

#### Corporate Value Creation

The Company works on deepening the culture of compliance with laws and regulations for creating and enhancing corporate values and development plans, achieving the Company's strategic objectives and improving performance standards by adding value to the Company's brand and increasing shareholders and stakeholders' trust in the Company.

The Company dedicates its efforts for achieving its objectives and encouraging self-monitoring, increasing staff self-confidence, communicating to them work values and enabling them to raise other people's awareness of these values. It also helps staff to demonstrate a more sense of responsibility and raise the level of professional performance. The Company continuously develop its reporting systems to become more comprehensive in a way that helps members of the Board of Directors and the Executive Management to take decisions based on sound and thoughtful understanding of the various activities of the Company.

## The Rule XI

### Focusing on the Significance of Corporate Social Responsibility

#### Social Responsibility:

The success and growth of companies in particular and the financial and investment sector in general can be associated directly or indirectly to these companies' awareness of the corporate social responsibility. Companies social responsibility is attributable to their belief in a number of lofty human values and standards, such as solidarity, sense of responsibility towards everyone in relation with the company, should it be a shareholder, an employee, a member of the public, stakeholders or any related party.

Company's approach in this regard is reflected by its continuous commitment to acting ethically, and contributing in achieving sustainable development for the Kuwaiti society in general and for the company's employees in particular. The Company works on improving the living, social and economic conditions of the workforce and their families and the society as a whole and contributing in the cutting down the levels of unemployment in society and enhancing the optimal use of the available resources. The Company provides full support for national employment and encourages young people to join work.

For this reason and on the back of their strong belief in these lofty principles, A'Ayan and its subsidiaries strive in carrying out their active role towards society. The Board of Directors has approved corporate social responsibility policies and procedures manual in a manner that recognizes and supports the process of having balance between the company's goals and the overall objectives of society, working to highlight the company's role in social work in the State of Kuwait. The more the Company increases its understanding and giving significance and value to this process, the greater positive effect will be reflected on the development, prosperity and evolution of the Company. As such, the profitability and good reputation of the Company is enhanced.

The Company's role in the field of social work in the State of Kuwait has been prominent during the financial year ended 31 December 2020. It performed many activities for fighting the spread of the Novel Corona Virus (COVID-19) Pandemic in close coordination with the health authorities, the first line of defense. The Company stopped its works in line with the instructions and guidelines of the State health authorities. It planned and approved rendering its activities and services to stakeholders remotely. This approach is driven by the Company's endeavors for protecting the safety and health of staff, clients and the public against the spread of the pandemic.

In the context of relieving the burdens on stakeholders, the occupants of the Company's real estates, and for social contribution in bearing part of the adverse impacts of business suspension due to the total and partial lockdown throughout the previous period, the Company's Management has postponed and lowered the rental values due on tenants for supporting them in such exceptional circumstances.

For participation by the Company's in bearing the effects of the lockdown and out of its responsibility towards its employees, A'Ayan and its subsidiaries have paid the full salaries of all their employees as usual without changing or cutting down the salaries. They have also transferred the salaries to all employees who were held outside the country as a result of stopping air flights and boarder closure. They also suspended payments of the installments due from their employees on commission system as the Management strongly believes that the Company's employees are considered an integral and valuable part of its capital and assets. Under a decision of Kuwait health authorities to gradually get back to work on stages, the Company's Management has approved a plan for resuming its business in consistency with the health authorities' guidelines. The Company provided extensive training to its employees on the instructions for getting back to work as well as the preventive and mandatory measures such as wearing face masks, regular use of sterilizers and wearing gloves to preserve the staff and customer safety. The Company also performs periodic sterilization of its premises, measures employees and the clients' temperature before entering into the Company's premises, and provides free swabs for willing employees and for other staff who have been in contact with positive cases in close coordination with the competent official authorities. The Company also promptly initiate having swabs in case any of the known symptoms indicating likelihood of positive Virus infection. The Company issues awareness bulletins about social responsibility to keep the safety of staff and customers alike. All these endeavors aim at keeping the safety and general health of the society as a whole.









Erbst & Young  
Al Aiban, Al Osaimi & Partners  
P.O.Box 74  
18-20th Floor, Baitak Tower  
Ahmed Al Jaber Street  
Safat Square 13001, Kuwait

Tel: +965 2 295 5000  
Fax: +965 2 245 6419  
kuwait@kw.ey.com  
ey.com/mena

## **INDEPENDENT AUDITOR'S 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 its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity 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 2020, 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 Auditors' 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 report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



Erbst & Young  
Al Aiban, Al Osaimi & Partners  
P.O.Box 74  
18-20th Floor, Baitak Tower  
Ahmed Al Jaber Street  
Safat Square 13001, Kuwait

Tel: +965 2 295 5000  
Fax: +965 2 245 6419  
kuwait@kw.ey.com  
ey.com/mena

## **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)**

##### ***Debt settlement, accounting for loss in control and discontinued operations***

As at 31 December 2019, the Parent Company had significant debt exposure of KD 136,874,221 as disclosed in Note 24 of the consolidated financial statements. As stated in Note 24 therein, during the prior years, the Parent Company negotiated a final settlement plan ("proposed plan") of its Islamic finance payables with its lenders and was undergoing court proceedings for the approval of the proposed plan. On 19 August 2020, the Court of Cassation issued its final verdict approving the proposed plan ratified by the Central Bank of Kuwait ("CBK") and the suspension of litigation and enforcement procedures related to the remaining debt exposure during the period extending to the end of 2024. Further to the court ruling and during the third and fourth quarter of 2020, the Parent Company reached a debt settlement agreement with the majority of the lenders representing 93% of its total outstanding Islamic finance payables.

During the current year, the debt settlement arrangements with the lenders led to loss of control in a wholly owned subsidiary, namely Tawazun Holding Company K.S.C. (Closed) ("Tawazun"), and consequently, the Group ceased to consolidate the former subsidiary and accounted for the retained interest in Tawazun as a financial asset at fair value through other comprehensive (FVOCI) in accordance with IFRS 9: Financial Instruments. Further, as a result of the debt settlement, the Group deconsolidated A'ayan Real Estate Company K.S.C.P. ("AREC") and accounted for the directly retained interest in AREC as an investment in associate using the equity method of accounting from the date control is lost in accordance with IAS 28: Investment in Associates and Joint Ventures. These events have also triggered the classification as 'discontinued operations' in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations and led to the disposal group being presented as discontinued operations in the consolidated financial statements.

We considered the debt settlement and changes in the Group's structure as a key audit matter given the significant effect on the Group's consolidated financial statements, as well as the judgement and complexity involved in accounting for the gain from debt settlement and the retained interest at the date control is lost.

The Group's disclosures on the debt settlement, discontinued operations, the deconsolidation of subsidiaries and accounting of the retained interests in investees are set out in Notes 15 and 24 to the consolidated financial statements.

Our audit procedures included, among others, the following:

We obtained the final verdict issued by the Court of Cassation, read the analysis prepared by management for the accounting treatment of the debt settlement, and challenged the appropriateness of assumptions and whether all the relevant accounting implications had been considered in reference to relevant IFRS pronouncements. We also read the debt settlement agreements with lenders to ensure the analysis prepared by management considered all accounting impacts.



Erbst & Young  
Al Aiban, Al Osaimi & Partners  
P.O.Box 74  
18-20th Floor, Baitak Tower  
Ahmed Al Jaber Street  
Safat Square 13001, Kuwait

Tel: +965 2 295 5000  
Fax: +965 2 245 6419  
kuwait@kw.ey.com  
ey.com/mena

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

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

#### Key Audit Matters (continued)

##### *Debt settlement, accounting for loss in control and discontinued operations (continued)*

- We assessed the management's conclusion on the classification of the disposal group as discontinued operations as at the reporting date in accordance with IFRS 5.
- We challenged the assumptions used by management in connection with the fair value measurement of the retained interests in Tawazun and AREC.
- We assessed the adequacy and appropriateness of the related consolidated financial statement disclosures in reference to the relevant accounting standards and pronouncements.

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

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, which have been impacted by the ongoing pandemic. 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.

Valuations are performed by external real estate appraisers. The valuer has included a material valuation uncertainty clause in its valuation report. This clause highlights that less certainty, and consequently a higher degree of caution, should be associated to the valuation as a result of the COVID-19 pandemic. This represents a significant estimate uncertainty in relation to the valuation of investment properties.

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 and the impact of the on-going COVID-19 pandemic on the economy, we have considered this as a key audit matter.

- 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, particularly in light of COVID-19.



Erbst & Young  
Al Aiban, Al Osaimi & Partners  
P.O.Box 74  
18-20th Floor, Baitak Tower  
Ahmed Al Jaber Street  
Safat Square 13001, Kuwait

Tel: +965 2 295 5000  
Fax: +965 2 245 6419  
kuwait@kw.ey.com  
ey.com/mena

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

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

#### Key Audit Matters (continued)

##### *Fair value measurement of investment properties (continued)*

- Further, we have considered the objectivity, independence and expertise of the external real estate appraisers.
- We have also verified the appropriateness of the transfer of investment properties held by the Group through Tawazun and AREC and the implications related to discontinued operations and have concluded that this has been appropriately presented and accounted for.
- 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 increased estimation and uncertainty as a result of COVID-19.

#### Other Information included in the Group's Annual Report 2020

Management is responsible for the other information. Other information consists of the information included in the Group's 2020 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 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.



Erbst & Young  
Al Aiban, Al Osaimi & Partners  
P.O.Box 74  
18-20th Floor, Baitak Tower  
Ahmed Al Jaber Street  
Safat Square 13001, Kuwait

Tel: +965 2 295 5000  
Fax: +965 2 245 6419  
kuwait@kw.ey.com  
ey.com/mena

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Erbst & Young  
Al Aiban, Al Osaimi & Partners  
P.O.Box 74  
18-20th Floor, Baitak Tower  
Ahmed Al Jaber Street  
Safat Square 13001, Kuwait

Tel: +965 2 295 5000  
Fax: +965 2 245 6419  
kuwait@kw.ey.com  
ey.com/mena

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

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

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

- 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..

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.



Erbst & Young  
Al Aiban, Al Osaimi & Partners  
P.O.Box 74  
18-20th Floor, Baitak Tower  
Ahmed Al Jaber Street  
Safat Square 13001, Kuwait

Tel: +965 2 295 5000  
Fax: +965 2 245 6419  
kuwait@kw.ey.com  
ey.com/mena

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

### Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, as amended and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2020 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 2020 that might have had a material effect on the business of the Parent Company or on its financial position.

---

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

4 February 2021  
Kuwait



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS For the year ended 31 December 2020

		2020	2019
	Notes	KD	KD
<b>CONTINUING OPERATIONS</b>			
<b>INCOME</b>			
Islamic finance income		13,762	39,747
Income from leasing operations	6	9,569,961	10,695,652
Real estate income	7	1,973,176	3,439,743
Income from investments and saving deposits	8	812,510	538,404
Share of results of associates	15	(347,841)	(5,843,421)
Hair-cut income on settlement of Islamic finance payables	24	25,395,989	-
Advisory and management fees		100,933	196,730
Other income	9	339,163	530,556
		<u>37,857,653</u>	<u>9,597,411</u>
<b>EXPENSES</b>			
Reversal of finance costs / (finance costs)		2,894,924	(6,607,758)
Net impairment losses, expected credit losses and provisions	10	(1,820,022)	(13,213,349)
Staff costs		(5,543,618)	(5,343,743)
Depreciation		(369,560)	(512,724)
Net foreign exchange differences		(37,976)	155,498
Other expenses	11	(2,214,529)	(1,695,047)
		<u>(7,090,781)</u>	<u>(27,217,123)</u>
<b>PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>30,766,872</b>	<b>(17,619,712)</b>
Taxation		(837,332)	-
Taxation from subsidiaries		(103,124)	(170,730)
<b>PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS</b>		<b>29,826,416</b>	<b>(17,790,442)</b>
<b>DISCONTINUED OPERATIONS</b>			
(Loss) profit after tax for the year from discontinued operations	24	(9,781,635)	4,496,113
<b>PROFIT (LOSS) FOR THE YEAR</b>		<b>20,044,781</b>	<b>(13,294,329)</b>
<b>Attributable to:</b>			
<b>Equity holders of the Parent Company</b>			
Profit (loss) for the year from continuing operations		29,806,166	(18,271,998)
(Loss) profit for the year from discontinued operations		(9,120,800)	3,656,553
		<u>20,685,366</u>	<u>(14,615,445)</u>
<b>Non-controlling interests</b>			
Profit for the year from continuing operations		20,250	481,556
(Loss) profit for the year from discontinued operations		(660,835)	839,560
		<u>(640,585)</u>	<u>1,321,116</u>
<b>PROFIT (LOSS) FOR THE YEAR</b>		<b>20,044,781</b>	<b>(13,294,329)</b>
<b>BASIC AND DILUTED EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	12	<b>25.80 fils</b>	<b>(18.23) fils</b>
<b>BASIC AND DILUTED EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY FOR CONTINUING OPERATIONS</b>	12	<b>37.18 fils</b>	<b>(22.79) fils</b>
<b>BASIC AND DILUTED (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO EQUITYHOLDERS OF THE PARENT COMPANY FOR DISCONTINUED OPERATIONS</b>	12	<b>(11.38) fils</b>	<b>4.56 fils</b>

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the year ended 31 December 2020

		2020	2019
	Notes	KD	KD
<b>PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS</b>		<b>29,826,416</b>	<b>(17,790,442)</b>
<b>Other comprehensive income from continuing operations</b>			
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>			
Share of other comprehensive loss of associates		(4,404)	(107,134)
Exchange differences on translation of foreign operations		84,399	320,440
		<u>79,995</u>	<u>213,306</u>
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:</i>			
Revaluation of property and equipment	18	837,000	591,000
		<u>916,995</u>	<u>804,306</u>
<b>Net other comprehensive income from continuing operations</b>		<b>916,995</b>	<b>804,306</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS</b>		<b>30,743,411</b>	<b>(16,986,136)</b>
		<u>30,743,411</u>	<u>(16,986,136)</u>
<b>(LOSS) PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS</b>		<b>(9,781,635)</b>	<b>4,496,113</b>
<b>Other comprehensive income (loss) from discontinued operations</b>			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Share of other comprehensive income (loss) of associates		74,550	(180,051)
Exchange differences on translation of foreign operations		51,429	(1,605)
		<u>125,979</u>	<u>(181,656)</u>
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Net gain (loss) on equity investments designated at fair value through other comprehensive income		80,315	(114,401)
		<u>206,294</u>	<u>(296,057)</u>
<b>Net other comprehensive income (loss) from discontinued operations</b>		<b>206,294</b>	<b>(296,057)</b>
<b>TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR FROM DISCONTINUED OPERATIONS</b>		<b>(9,575,341)</b>	<b>4,200,056</b>
		<u>(9,575,341)</u>	<u>4,200,056</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>		<b>21,168,070</b>	<b>(12,786,080)</b>
		<u>21,168,070</u>	<u>(12,786,080)</u>
<b>Attributable to:</b>			
<b>Equity holders of the Parent Company</b>			
Total comprehensive income (loss) for the year from continuing operations		30,686,189	(17,629,837)
Total comprehensive (loss) income for the year from discontinued operations		(8,945,853)	3,407,248
		<u>21,740,336</u>	<u>(14,222,589)</u>
<b>Non-controlling interests</b>			
Total comprehensive income for the year from continuing operations		57,222	643,701
Total comprehensive (loss) income for the year from discontinued operations		(629,488)	792,808
		<u>(572,266)</u>	<u>1,436,509</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>		<b>21,168,070</b>	<b>(12,786,080)</b>
		<u>21,168,070</u>	<u>(12,786,080)</u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at 31 December 2020

		2020	2019
	Notes	KD	KD
<b>ASSETS</b>			
Cash and short-term deposits	13	33,851,865	51,385,649
Islamic finance receivables	14	-	23,243
Trading properties		-	14,381,812
Financial assets at fair value through profit or loss		2,460,775	2,170,384
Financial assets at fair value through other comprehensive income	24	4,340,771	282,425
Investment in associates	15	8,497,741	29,714,607
Investment properties	16	29,553,724	123,563,008
Other assets	17	6,985,643	11,043,744
Property and equipment	18	56,153,273	60,138,500
Leasehold rights	19	2,776,626	4,112,041
Goodwill		91,005	91,005
		<u>144,711,423</u>	<u>296,906,418</u>
Assets held for disposal	5	1,979,363	-
<b>TOTAL ASSETS</b>		<u>146,690,786</u>	<u>296,906,418</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	20	81,403,882	81,403,882
Statutory reserve	21	145,466	-
General reserve	21	8,661,656	8,661,656
Treasury shares	23	(11,339,726)	(11,339,726)
Treasury shares reserve	23	2,678,070	2,678,070
Asset revaluation surplus	22	8,755,469	7,918,469
Foreign currency translation reserve		(214,354)	(119,877)
Fair value reserve		-	(55,791)
Effect of changes in reserve of associates		968,870	(555,683)
Retained earnings (accumulated losses)		130,727	(20,175,934)
<b>Equity attributable to equity holders of the Parent Company</b>		<u>91,190,060</u>	<u>68,415,066</u>
Non-controlling interests	5	12,400,479	37,304,230
<b>Total equity</b>		<u>103,590,539</u>	<u>105,719,296</u>
<b>Liabilities</b>			
Islamic finance payables	24	11,724,029	151,961,502
Other liabilities	25	30,896,855	39,225,620
		<u>42,620,884</u>	<u>191,187,122</u>
Liabilities directly associated with assets classified as held for disposal	5	479,363	-
<b>Total liabilities</b>		<u>43,100,247</u>	<u>191,187,122</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>146,690,786</u>	<u>296,906,418</u>

**Fahad Ali Mohammed Thunayan Al-Ghanim**  
Chairman

**Abdullah Mohammed Al Shatti**  
Chief Executive Officer

# CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended 31 December 2020

		2020	2019
	Notes	KD	KD
<b>OPERATING ACTIVITIES</b>			
Profit (loss) before tax from continuing operations		30,766,872	(17,619,712)
(Loss) profit before tax from discontinuing operations		(9,776,868)	4,573,881
		<u>20,990,004</u>	<u>(13,045,831)</u>
Profit (loss) before tax and directors' remuneration			
<i>Non-cash adjustments to reconcile profit (loss) before tax to net cash flows:</i>			
Depreciation and amortisation		11,082,493	12,030,451
Hair-cut income on settlement of Islamic finance payables	24	(25,395,989)	-
Net impairment losses, expected credit losses and provisions		2,364,274	12,714,190
Gain on disposal of investment properties	16	(193,000)	(1,181,479)
Valuation losses (gains) from investment properties	16	69,566	(28,581)
Gain on disposal of property and equipment	6	(1,827,171)	(2,243,894)
(Loss) income from investments and saving deposits		5,652,541	(552,936)
Other income		(135,497)	-
Share of results of associates		3,739,351	3,906,638
Net foreign exchange differences		36,767	(162,339)
Provision for employees end of service benefits		696,781	789,142
Finance costs		(2,402,369)	7,225,763
		<u>14,677,751</u>	<u>19,451,124</u>
<i>Changes in operating assets and liabilities:</i>			
Islamic finance receivables		74,798	227,499
Other assets		(47,057)	(1,623,092)
Other liabilities		711,469	(2,446,248)
		<u>15,416,961</u>	<u>15,609,283</u>
Cash flows from operations			
Employees end of service benefits paid		(743,381)	(229,905)
Taxes paid		(187,952)	(329,157)
Receipt of grants from Public Authority for Manpower	35	135,497	-
		<u>14,621,125</u>	<u>15,050,221</u>
<b>Net cash flows from operating activities</b>			
<b>INVESTING ACTIVITIES</b>			
Cash and cash equivalents relating to subsidiaries disposed during the year		(9,004,328)	-
Proceeds from sale/redemption of investment in associates		39,887	615,299
Purchase of investment properties		(192,395)	(1,492,907)
Proceeds from disposal of investment properties	16	1,800,000	20,506,000
Income received from investment and savings deposits		902,769	774,509
Dividend received		142,928	152,118
Dividend received from associates		1,007,805	675,764
Purchase of property and equipment	18	(16,031,293)	(18,860,699)
Proceeds from disposal of property and equipment		9,924,340	15,200,244
Movement in restricted bank balance		(248)	(31,329)
		<u>(11,410,535)</u>	<u>17,538,999</u>
<b>Net cash flows (used in) from investing activities</b>			
<b>FINANCING ACTIVITIES</b>			
Finance costs paid		(357,571)	(3,963,968)
Net repayment of Islamic finance payables		(18,993,515)	-
Payment of principal portion of lease liabilities		(803,200)	(1,293,431)
Dividends paid to non-controlling interests		(585,377)	(1,445,207)
Net movement in non-controlling interests		(4,959)	(834,881)
		<u>(20,744,622)</u>	<u>(7,537,487)</u>
<b>Net cash flows used in financing activities</b>			
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u>(17,534,032)</u>	<u>25,051,733</u>
Cash and cash equivalents as at 1 January		51,333,942	26,282,209
		<u>33,799,910</u>	<u>51,333,942</u>
<b>CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER</b>	13		

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the year ended 31 December 2020

## Attributable to equity holders of the Parent Company

	Share capital	Statutory reserve	General reserve	Treasury shares	Treasury shares reserve	Asset revaluation surplus	Foreign currency translation reserve	Fair value reserve	Effect of changes in reserve of associates	Retained earnings (accumulated losses)	Subtotal	Non-controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
As at 1 January 2020	81,403,882	-	8,661,656	(11,339,726)	2,678,070	7,918,469	(119,877)	(55,791)	(555,683)	(20,175,934)	68,415,066	37,304,230	105,719,296
Profit (loss) for the year	-	-	-	-	-	-	-	-	-	20,685,366	20,685,366	(640,585)	20,044,781
Other comprehensive income for the year	-	-	-	-	-	837,000	98,853	48,971	70,146	-	1,054,970	68,319	1,123,289
Total comprehensive income (loss) for the year	-	-	-	-	-	837,000	98,853	48,971	70,146	20,685,366	21,740,336	(572,266)	21,168,070
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(585,377)	(585,377)
Transfer to reserve	-	145,466	-	-	-	-	-	-	-	(145,466)	-	-	-
Transferred to discontinued operations upon disposal (Note 24)	-	-	-	-	-	-	(290,010)	-	1,320,857	-	1,030,847	-	1,030,847
Transferred to retained earnings upon disposal	-	-	-	-	-	-	-	6,820	133,550	(140,370)	-	-	-
Derecognition of non-controlling interests of AREC	-	-	-	-	-	-	-	-	-	-	-	(26,029,721)	(26,029,721)
Change in ownership interest in subsidiaries without loss of control	-	-	-	-	-	-	96,680	-	-	(92,869)	3,811	2,283,613	2,287,424
<b>As at 31 December 2020</b>	<b>81,403,882</b>	<b>145,466</b>	<b>8,661,656</b>	<b>(11,339,726)</b>	<b>2,678,070</b>	<b>8,755,469</b>	<b>(214,354)</b>	<b>-</b>	<b>968,870</b>	<b>130,727</b>	<b>91,190,060</b>	<b>12,400,479</b>	<b>103,590,539</b>
As at 1 January 2019	81,403,882	-	8,661,656	(11,339,726)	2,678,070	7,327,469	(276,567)	11,858	(268,498)	(6,359,048)	81,839,096	38,946,368	120,785,464
(Loss) profit for the year	-	-	-	-	-	-	-	-	-	(14,615,445)	(14,615,445)	1,321,116	(13,294,329)
Other comprehensive income (loss) for the year	-	-	-	-	-	591,000	156,690	(67,649)	(287,185)	-	392,856	115,393	508,249
Total comprehensive income (loss) for the year	-	-	-	-	-	591,000	156,690	(67,649)	(287,185)	(14,615,445)	(14,222,589)	1,436,509	(12,786,080)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(1,445,207)	(1,445,207)
Change in ownership interest in subsidiaries	-	-	-	-	-	-	-	-	-	798,559	798,559	(1,633,440)	(834,881)
<b>As at 31 December 2019</b>	<b>81,403,882</b>	<b>-</b>	<b>8,661,656</b>	<b>(11,339,726)</b>	<b>2,678,070</b>	<b>7,918,469</b>	<b>(119,877)</b>	<b>(55,791)</b>	<b>(555,683)</b>	<b>(20,175,934)</b>	<b>68,415,066</b>	<b>37,304,230</b>	<b>105,719,296</b>

**NOTES TO THE CONSOLIDATED FINANCIAL  
STATEMENTS**

**As at and for the year ended 31  
December 2020**



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 1 CORPORATE INFORMATION

The consolidated financial statements of A'ayan Leasing and Investment Company K.S.C.P. (the "Parent Company") and its Subsidiaries (collectively, the "Group") for the year ended 31 December 2020 was authorised for issue in accordance with a resolution of the Board of Directors on 4 February 2021, 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 postals 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 29.

## 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 Shari'a as approved by the Parent Company's Fatwa and Shari'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 for use 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 investment securities at FVTPL and FVOCI, 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 32.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

### 3.1 BASIS OF PREPARATION (continued)

Certain prior year amounts do not correspond with the 2019 consolidated financial statements and reflect adjustments made for discontinued operations as detailed in Note 5 and 24.

### 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 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

#### 3.2.1 New standards, interpretations, and amendments adopted by the Group

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the consolidated financial information of the Group.

##### Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

##### Adoption of profit rate benchmark reform (IBOR reform Phase 1)

The Group has adopted profit rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform Phase 1) with effect from 1 January 2020. IBOR reform Phase 1 includes a number of reliefs, which apply to all hedging relationships that are directly affected by profit rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. IBOR reform Phase 1 provides reliefs which require the Group to assume that hedging relationships are unaffected by the uncertainties caused by IBOR reform. This includes assuming that hedged cash flows are not altered as a result of IBOR reform. Also, the reliefs allow the Group to not discontinue hedging relationships as a result of retrospective or prospective ineffectiveness. These amendments did not have a material impact on the consolidated financial statements of the Group.

##### Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

##### Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

### 3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

#### 3.2.1 New standards, interpretations, and amendments adopted by the Group (continued)

Conceptual Framework for Financial Reporting issued on 29 March 2018

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

These amendments had no impact on the consolidated financial statements of the Group.

#### Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no material impact on the consolidated financial statements of the Group.

#### 3.2.2 Summary of accounting policies for new transactions and events

##### Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

### 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.

#### Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

The amendments are not expected to have a material impact on the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

### 3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

#### **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 are not expected to have a material impact on the Group.

#### **IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities**

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

#### **Profit Rate Benchmark Reform (Phase 2)**

On 27 August 2020 the International Accounting Standards Board (IASB or the Board) published ‘Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16’ (IBOR reform Phase 2). IBOR reform Phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an Inter-Bank Offered Rate (an IBOR) with an alternative nearly risk-free profit rate (an RFR).

The impact of the replacement of interbank offered rates (‘IBORs’) with alternative risk-free rates on the Group's products and services remains a key area of focus. The Group has exposure to contracts referencing IBORs, such as Libor, extending past FY2021, when it is likely that these IBORs will cease being published. The Group is currently assessing the impact of the Group's transition to the new rate regimes after 2021 by considering changes in its products, services, systems and reporting and will continue to engage with internal and external stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

### 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

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

#### 3.4.1 Basis of consolidation (continued)

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 administrative 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.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 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)

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 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.

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.

#### 3.4.4 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

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

#### 3.4.4 Revenue recognition (continued)

##### 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 of 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.

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.

#### 3.4.5 Finance income and expense

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

#### 3.4.6 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.

#### 3.4.7 Dividend income

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

#### 3.4.8 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

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

#### 3.4.8 Taxes (continued)

##### *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.

#### 3.4.9 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash on hand, non-restricted 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) as they are considered an integral part of the Group's cash management.

#### 3.4.10 Term deposits

Term deposits represent deposits with banks due within three months or more from the placement date and earn profit.

#### 3.4.11 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

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

#### 3.4.11 Financial instruments - initial recognition, subsequent measurement, derecognition and impairment (continued)

##### *i) Financial assets (continued)*

##### **Initial recognition and initial measurement (continued)**

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 OCI (debt instruments)**

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

##### **c) Financial assets designated at fair value through OCI (equity instruments)**

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably certain equity investments under this category.

##### **d) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

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

#### 3.4.11 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

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

#### 3.4.11 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 statement of profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

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

#### 3.4.11 Financial instruments - initial recognition, subsequent measurement, derecognition and impairment (continued)

##### *ii) Financial liabilities (continued)*

##### **Financial liabilities at amortised cost (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 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.

#### 3.4.12 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

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

#### 3.4.13 Trading properties

Trading properties are held for short term purposes and are stated at the lower of cost and net realisable value determined on an individual basis. Cost comprises the purchase cost of real estate and other expenses incurred in order to complete the transaction. Net realisable value is based on estimated selling price in the ordinary course of the business, less any further costs necessary to make the sale.

#### 3.4.14 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.

#### 3.4.15 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.

#### 3.4.16 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. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

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 profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the 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.

When an asset is revalued, any increase in the carrying amount arising on revaluation is credited to consolidated statement of comprehensive income in the asset revaluation surplus, except to the extent that a revaluation increase merely restores the carrying value of an asset to its original cost, whereby it is recognised as income. A decrease resulting from a revaluation is initially charged directly against any related revaluation surplus held in respect of that same asset, the remaining portion being charged as an expense. On disposal the related revaluation surplus is credited directly to retained earnings.

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred 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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

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

##### 3.4.16 Property and equipment (continued)

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, plant 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 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.

##### 3.4.17 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.

##### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

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

#### 3.4.17 Leases (continued)

##### *Group as a lessee (continued)*

##### *ii) Lease liabilities (continued)*

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 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.

#### 3.4.18 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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

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

#### 3.4.18 Impairment of non-financial assets (continued)

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

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

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

#### 3.4.19 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 makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. These contributions are expensed when due.

#### 3.4.20 Provisions

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

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

#### 3.4.21 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.

#### 3.4.22 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

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

#### 3.4.22 Foreign currencies (continued)

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

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

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

#### Group companies

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

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

#### 3.4.23 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.

#### 3.4.24 Events after the reporting period

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

#### 3.4.25 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

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

#### 3.4.26 Treasury shares

The Group's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in equity (treasury shares reserve) which is non-distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are distributed on these shares and the voting rights related to these shares are discarded. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

#### 3.4.27 Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

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

- ▶ Represents a separate major line of business or geographical area of operations
- ▶ Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations

Or

- ▶ Is a subsidiary acquired exclusively with a view to resale

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

## 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

### 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:

#### ***Going concern***

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

#### ***Fair value of financial instruments***

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 34.

#### ***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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 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.

### 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 goodwill***

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

#### ***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.

#### ***Estimation of net realisable value for trading properties***

Inventory property is stated at the lower of cost and net realisable value (NRV). NRV for completed inventory property is assessed by reference to market conditions and prices existing at the reporting date and is determined by the Group, based on comparable transactions identified by the Group for properties in the same geographical market serving the same real estate segment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

### 4.2 Estimates and assumptions (continued)

#### **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 34.

#### **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.

#### **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).

#### **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 41.9% equity interest. The remaining 58.1% of the equity shares in Mubarrad are held by many other shareholders who, individually, hold less than 10%. Furthermore, the Parent Company has a majority representation on the board of directors of Mubarrad.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 5 GROUP INFORMATION

The consolidated financial statements of the Group include:

Name of company	Country of incorporation	% equity interest		Principal activities
		2020	2019	
Tawazun Holding Company K.S.C. (Closed) ("Tawazun") <sup>1</sup>	Kuwait	-	100%	Holding company
A'ayan Leasing Holding Company K.S.C. (Holding)	Kuwait	100%	100%	Leasing activities
East Gate Real Estate Company S.P.C.	Kuwait	100%	100%	Real estate
Mubarrad Holding Company K.S.C.P. ("Mubarrad") <sup>2</sup>	Kuwait	41.9%	50.5%	Trading and renting heavy vehicles
Jahraa Mall – JV	Kuwait	77.1%	84%	Real estate
Yall Mall – JV	Kuwait	-	74.0%	Real estate
A'ayan Real Estate Company K.S.C.P. ("AREC") (held indirectly through Tawazun) <sup>1</sup>	Kuwait	-	61.0%	Real estate
Anan Real Estate Financing Company K.S.C. (Closed) (held indirectly through AREC) <sup>1</sup>	Kuwait	-	61.0%	Real estate financing
Takatuf Real Estate Company K.S.C (Closed) (held indirectly through Mubarrad)	Egypt	41.9%	50.5%	Real estate

<sup>1</sup> During the current year, the debt settlement arrangements with the lenders led to loss of control in Tawazun and consequently, the Group ceased to consolidate Tawazun and AREC (Note 24), and accounted for the 5% retained interest in Tawazun as a financial asset at fair value through other comprehensive income (FVOCI) in accordance with IFRS 9: Financial Instruments, and the 15.13% retained interest in AREC as an investment in associate in accordance with IAS 28: Investments in Associates and Joint Ventures (Note 15).

<sup>2</sup> As a result of the debt settlement arrangements with lenders, the Group's ownership interest in Mubarrad decreased from 50.5% to 41.9% and the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in the Parent Company's relative interest in the subsidiary. Although the Group currently owns less than 50% of the equity of Mubarrad, 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 shareholders acting in concert. The Group also holds the majority of the seats on the Board of Directors, and accordingly, considers that it exercises de facto control over Mubarrad, based on an IFRS 10: Consolidated Financial Statements criteria analysis (Note 4).

On 9 December 2020, Mubarrad announced its commitment to a sale plan involving loss control in a subsidiary, namely Batic Manufacturing Company W.L.L. ("Batic"). The criterion of being available for immediate sale is therefore met at the plan commitment date, and accordingly, the associated assets and liabilities of Batic were consequently presented as held for sale in the consolidated financial statements and is reported in the current period as a discontinued operation in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

As at 31 December 2020, Mubarrad classified one of its subsidiaries as held for sale and discontinued operations. Assets classified as held for sale and liabilities directly associated with assets classified as held for disposal amounted to KD 1,979,363 and KD 479,363, respectively. The loss from the discontinued operation of KD 199,620 (2019: loss of KD 51,429) is presented separately in the consolidated statement of profit or loss for the year then ended.

### Material partly owned subsidiaries:

As at 31 December 2020, the Group had concluded that Mubarrad (2019: AREC and Mubarrad) is the only subsidiary with non-controlling interests that is material to the consolidated financial statements.

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

Proportion of equity interest held by non-controlling interest:

	2020	2019
	KD	KD
A'ayan Real Estate Company K.S.C.P.	-	39%
Mubarrad Transportation Company K.S.C.P.	58.1%	49.5%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 5 GROUP INFORMATION (continued)

Material partly owned subsidiaries (continued):

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

	2020	2019
	KD	KD
A'ayan Real Estate Company K.S.C.P.	-	26,587,585
Mubarrad Transportation Company K.S.C.P.	11,571,969	10,236,410

### (Loss) profit allocated to material non-controlling interests:

	2020	2019
	KD	KD
A'ayan Real Estate Company K.S.C.P.	(580,440) <sup>1</sup>	866,257 <sup>1</sup>
Mubarrad Transportation Company K.S.C.P.	(27,561)	483,924

<sup>1</sup> Classified under (loss) profit from discontinued operations in the consolidated statement of profit or loss and represents the results up to the date of loss of control i.e. 18 October 2020.

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

	2020		2019	
	AREC KD	Mubarrad KD	AREC KD	Mubarrad KD
<i>Summarised statement of profit or loss</i>				
Income	701,880 <sup>1</sup>	1,077,404	5,198,168 <sup>1</sup>	2,085,097
Expenses	(1,914,213) <sup>1</sup>	(1,032,865)	(2,866,775) <sup>1</sup>	(1,076,885)
(Loss) profit for the year	(1,212,333) <sup>1</sup>	44,539	2,331,393 <sup>1</sup>	1,008,212
Total comprehensive income for the year	68,937 <sup>2</sup>	(87,833)	2,218,945 <sup>2</sup>	1,340,380

<sup>1</sup> Classified under (loss) profit from discontinued operations in the consolidated statement of profit or loss and represents the results up to the date of loss of control i.e. 18 October 2020.

<sup>2</sup> Classified under total comprehensive income (loss) from discontinued operations in the consolidated statement of comprehensive income and represents the results up to the date of loss of control i.e. 18 October 2020.

	2020		2019	
	AREC KD	Mubarrad KD	AREC KD	Mubarrad KD
<i>Summarised statement of financial position</i>				
Total assets	-	23,304,058	111,624,303	24,988,721
Total liabilities	-	3,314,067	19,203,000	4,274,395
Total equity	-	19,989,991	92,421,303	20,714,326

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 5 GROUP INFORMATION (continued)

	2020		2019	
	AREC KD	Mubarrad KD	AREC KD	Mubarrad KD
<i>Summarised cash flow information</i>				
Operating	<b>254,072</b>	<b>516,110</b>	(3,371,517)	917,734
Investing	<b>1,602,647</b>	<b>(705,271)</b>	6,044,162	46,000
Financing	<b>(1,324,217)</b>	<b>(1,031,045)</b>	(2,151,921)	(1,628,355)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net increase (decrease) in cash and cash equivalents	<b>532,502</b>	<b>(1,220,206)</b>	520,724	(664,621)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 6 INCOME FROM LEASING OPERATIONS

	2020	2019
	KD	KD
Operating lease rental income	<b>17,035,378</b>	18,705,764
Service, maintenance and other income	<b>1,071,062</b>	1,374,206
Gain on disposal of motor vehicles	<b>1,827,171</b>	2,243,894
	<u>          </u>	<u>          </u>
	<b>19,933,611</b>	22,323,864
	<u>          </u>	<u>          </u>
Less: depreciation of motor vehicles (Note 18)	<b>(8,280,740)</b>	(9,161,750)
Less: maintenance and other expenses	<b>(2,082,910)</b>	(2,466,462)
	<u>          </u>	<u>          </u>
	<b>9,569,961</b>	10,695,652
	<u>          </u>	<u>          </u>

## 7 REAL ESTATE INCOME

	2020	2019
	KD	KD
Profit on disposal of investment properties	-	71,000
Valuation (losses) gains from investment properties	<b>(44,035)</b>	356,211
Rental income from investment properties	<b>2,516,243</b>	2,975,401
Rental income from a leasehold rights	<b>2,237,622</b>	3,459,010
Depreciation of right-of-use assets relating to leasehold rights (Note 18)	<b>(1,084,164)</b>	(957,210)
Amortisation of a leasehold rights (Note 19)	<b>(1,335,415)</b>	(1,331,761)
Real estate related expenses	<b>(317,075)</b>	(1,132,908)
	<u>          </u>	<u>          </u>
	<b>1,973,176</b>	3,439,743
	<u>          </u>	<u>          </u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 8 INCOME FROM INVESTMENTS AND SAVING DEPOSITS

	2020	2019
	KD	KD
Investment deposits and savings profits	715,946	757,882
Dividend income	142,332	150,224
Changes in fair value of financial assets at FVTPL	(45,768)	(369,702)
	<u>812,510</u>	<u>538,404</u>

## 9 OTHER INCOME

	2020	2019
	KD	KD
Grants from Public Authority for Manpower	123,272	-
Other income	215,891	530,556
	<u>339,163</u>	<u>530,556</u>

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

	2020	2019
	KD	KD
Reversal of provision for impairment of Islamic finance receivables	(51,555)	(154,991)
Impairment losses on other assets (Note 17)	438,827	2,314,028
ECL on trade receivables (Note 17)	356,921	848,001
Impairment of goodwill	-	945,874
Write off of an investment property (Note 16)	-	525,000
Impairment losses on property and equipment (Note 18)	195,681	7,303
Net impairment losses on investment in associates (Note 15)	89,113	8,202,361
Allowance for provision for legal cases	791,035	525,773
	<u>1,820,022</u>	<u>13,213,349</u>

## 11 OTHER EXPENSES

	2020	2019
	KD	KD
Premises expenses	398,569	389,517
Legal and professional fees	808,666	568,286
Marketing and advertising expenses	162,582	137,383
BOD remuneration of subsidiaries	25,000	59,457
Other miscellaneous expenses	819,712	540,404
	<u>2,214,529</u>	<u>1,695,047</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 12 EARNINGS (LOSS) PER SHARE (EPS)

Basic EPS amounts are calculated by dividing the profit (loss) 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 (loss) 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.

	2020	2019
	KD	KD
Profit (loss) for the year attributable to the equity holders of the Parent Company from continuing operations (KD)	29,806,166	(18,271,998)
(Loss) profit for the year attributable to the equity holders of the Parent Company from discontinued operations (KD)	(9,120,800)	3,656,553
Profit (loss) for the year attributable to the equity holders of the Parent Company (KD)	20,685,366	(14,615,445)
Weighted average number of shares outstanding during the year (shares) *	801,673,982	801,673,982
Basic and diluted earning (loss) per share from continuing operations attributable to the equity holders of the Parent Company (fils)	37.18	(22.79)
Basic and diluted (loss) earning per share from discontinuing operations attributable to the equity holders of the Parent Company (fils)	(11.38)	4.56
Basic and diluted earning (loss) per share attributable to the equity holders of the Parent Company (fils)	25.80	(18.23)

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

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

## 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:

	2020	2019
	KD	KD
Cash at banks and on hand	5,851,865	6,480,649
Short-term placements with financial institutions	28,000,000	44,905,000
<b>Cash and short-term deposits</b>	<b>33,851,865</b>	<b>51,385,649</b>
Less: restricted balances	(51,955)	(51,707)
<b>Cash and cash equivalents</b>	<b>33,799,910</b>	<b>51,333,942</b>

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 3.25% (2019: 2% to 3.25%) per annum.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 14 ISLAMIC FINANCE RECEIVABLES

	Musawama	Ijara	Tawaruq	Total
2020	KD	KD	KD	KD
Gross receivables	5,151,828	2,101,991	1,101,634	8,355,453
Less: deferred income	(873,496)	(337,647)	(94,711)	(1,305,854)
	<u>4,278,332</u>	<u>1,764,344</u>	<u>1,006,923</u>	<u>7,049,599</u>
Less: impairment losses				
- General	-	-	-	-
- Specific	4,278,332	1,764,344	1,006,923	7,049,599
	<u>4,278,332</u>	<u>1,764,344</u>	<u>1,006,923</u>	<u>7,049,599</u>
	-	-	-	-
	<u>5,151,828</u>	<u>2,101,991</u>	<u>1,101,634</u>	<u>8,355,453</u>
Gross amount of credit facilities individually determined to be impaired				
	<u>5,151,828</u>	<u>2,101,991</u>	<u>1,101,634</u>	<u>8,355,453</u>

	Musawama	Ijara	Real estate	Tawaruq	Total
2019	KD	KD	KD	KD	KD
Gross receivables	5,214,765	2,109,552	24,036	1,101,634	8,449,987
Less: deferred income	(885,499)	(339,407)	(560)	(94,711)	(1,320,177)
	<u>4,329,266</u>	<u>1,770,145</u>	<u>23,476</u>	<u>1,006,923</u>	<u>7,129,810</u>
Less: impairment losses					
- General	-	-	233	-	233
- Specific	4,329,266	1,770,145	-	1,006,923	7,106,334
	<u>4,329,266</u>	<u>1,770,145</u>	<u>233</u>	<u>1,006,923</u>	<u>7,106,567</u>
	-	-	23,243	-	23,243
	<u>5,214,765</u>	<u>2,109,552</u>	<u>-</u>	<u>1,101,634</u>	<u>8,425,951</u>
Gross amount of credit facilities individually determined to be impaired					
	<u>5,214,765</u>	<u>2,109,552</u>	<u>-</u>	<u>1,101,634</u>	<u>8,425,951</u>

Expected Credit Losses on credit facilities determined computed under IFRS 9 in accordance with CBK guidelines amounted to KD 7,049,599 as at 31 December 2020 (2019: KD 7,106,334), which is lower than the provision required by CBK instructions. As a result, no additional provision has been made.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 14 ISLAMIC FINANCE RECEIVABLES (continued)

Industry analysis of the Group's Islamic finance receivables (net of provisions) is as follows:

	2020	2019
	KD	KD
Construction and real estate	-	23,243
Others	-	-
	<u>-</u>	<u>23,243</u>

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

	General		Specific		Total	
	2020	2019	2020	2019	2020	2019
	KD	KD	KD	KD	KD	KD
At 1 January	233	887	7,106,334	7,268,293	7,106,567	7,269,180
Net reversals during the year	(233)	(654)	(51,556)	(154,992)	(51,789)	(155,646)
Write-off	-	-	(5,179)	(6,967)	(5,179)	(6,967)
At 31 December	-	233	7,049,599	7,106,334	7,049,599	7,106,567

## 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	
		2020	2019		2020	2019
					KD	KD
Oman Integral Logistics Company O.S.C.C ("Oman Integral") <sup>1</sup>	Oman	50.0%	50.0%	Logistics	3,628,850	3,787,069
A'ayan Real Estate Company K.S.C.P. ("AREC") <sup>2</sup>	Kuwait	15.1%	-	Real estate	4,702,891	-
Hajar Tower Real Estate Company K.S.C.C. ("Hajar") <sup>3</sup>	Kuwait	-	31.5%	Hospitality and residential services	-	5,820,916
Mashaer Holding Company K.S.C.P. ("Mashaer") <sup>3</sup>	Kuwait	-	24.5%	Real estate	-	5,720,433
Rawahel Holding Company K.S.C.C. ("Rawahel") <sup>3</sup>	Kuwait	-	33.4%	Transportation	-	5,709,344
Al-Jaddaf Real Estate Company K.S.C.C. ("Al Jaddaf") <sup>3</sup>	Kuwait	-	26.5%	Real estate	-	2,917,624
Aayan Leasing Company W.L.L. ("ALC") <sup>3</sup>	Qatar	-	33.0%	Leasing	-	5,759,221

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 15 INVESTMENT IN ASSOCIATES (continued)

<sup>1</sup> Included in the carrying amount of the investment in the associate is goodwill of KD 112,822 [2019: KD 112,822].

<sup>2</sup> Prior to 18 October 2020 (the date the Group lost control of Tawazun as a result of the debt settlement arrangement with lenders), the Group accounted for AREC as a subsidiary and consolidated the results and assets and liabilities of the investee. Following the loss of control in the former subsidiary, the Group deconsolidated AREC and management determined that it exerts significant influence over the investee through both its shareholding and its nominate directors's active participation on AREC's board of directors. As a result, the Group accounted for the directly retained interest in AREC (i.e. 15.1%) as an investment in associate using the equity method of accounting from the date control is lost in accordance with IAS 28: Investments in Associates and Joint Ventures. The Group's initial carrying amount of the associate is based on the fair value of the retained interest (i.e. KD 4,702,891) at the date control is lost and is reported in the current period as a discontinued operation. Financial information relating to the discontinued operation for the period to the date control is lost and the loss on deemed disposal is KD 5,581,747 (Note 24).

3 The Group's investment in these associates was held through Tawazun and AREC. The debt settlement arrangement with lenders gave rise to a dilution in the Group's interest in these entities and as such the Group no longer has significant influence over the investees and ceased to account for the investment in associates under the equity method.

	2020	2019
	KD	KD
<b>Group's share of net assets</b>		
Assets	<b>22,203,634</b>	63,888,195
Liabilities	<b>(8,236,968)</b>	(25,792,732)
<b>Group's share of net assets</b>	<b>13,966,666</b>	38,095,463
Goodwill	<b>112,822</b>	112,822
Fair valuation / impairment losses (Note 24)	<b>(5,581,747)</b>	(8,493,678)
	<b>8,497,741</b>	29,714,607

	2020	2019
	KD	KD
<b>Group's share of total comprehensive income</b>		
Revenue from continuing operations	<b>746,251</b>	5,898,309
(Expenses) revenue from discontinuing operations	<b>(5,981,565)</b>	4,927,231
Share of (loss) from continuing operations	<b>(347,841)</b>	(5,843,421)
Share of (loss) profit from discontinuing operations	<b>(3,391,510)</b>	1,936,783
Share of other comprehensive loss from continuing operations	<b>(4,404)</b>	(107,134)
Share of other comprehensive income (loss) from discontinuing operations	<b>74,550</b>	(180,051)
Dividends received	<b>1,007,805</b>	675,764

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 15 INVESTMENT IN ASSOCIATES (continued)

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

Reconciliation to carrying amounts	2020	2019
	KD	KD
As at 1 January	29,714,607	44,008,269
Additions	295,000	-
Loss of control in subsidiary and retention as associate	10,482,782	-
Deemed disposal of associate due to loss of control over subsidiaries	(21,507,645)	-
Reclassification to financial assets held at FVPL upon loss of significant influence	(249,202)	-
Share of results from continuing operations	(347,841)	(5,843,421)
Share of results from associates disposed	(3,260,865)	1,936,783
Share of other comprehensive income from continuing operations	(4,404)	(107,134)
Share of other comprehensive income from discontinued operations	74,550	(180,051)
Dividend receivable from associates	(235,945)	(628,439)
Dividend received from associates	(799,855)	(675,764)
Impairment losses (Note 10)	(89,113)	(8,202,361)
Fair valuation loss on initial recognition (Note 24)	(5,581,747)	-
Reversal of allowance of impairment in associate disposed	-	8,982
Sale/redemption of associates	(39,887)	(619,578)
Foreign currency translation adjustments	47,306	17,321
<b>As at 31 December</b>	<b>8,497,741</b>	<b>29,714,607</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 15 INVESTMENT IN ASSOCIATES (continued)

### 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.

2020	AREC	Oman Integral
	KD	KD
Total assets	111,962,284	10,195,479
Total liabilities and non-controlling interests	(43,987,150)	(3,163,424)
Equity attributable to parent company	67,975,134	7,032,055
Group's share in equity %	15.13%	50.0%
Group's share in associate	10,284,638	3,516,028
Goodwill	-	112,822
Fair valuation loss on initial recognition (Note 24)	(5,581,747)	-
<b>Group's carrying amount in associate</b>	<b>4,702,891</b>	<b>3,628,850</b>
Contingent liabilities and commitments	-	-

2020	AREC	Oman Integral
	KD	KD
(Loss) profit	(1,218,316)	82,690
Other comprehensive loss	(29,105)	-
<b>Total comprehensive (loss) income</b>	<b>(1,247,421)</b>	<b>82,690</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 15 INVESTMENT IN ASSOCIATES (continued)

Summarised financial information for associates (continued)

31 December 2019	Mashaer	Hajar	Rawahel	Al-Jaddaf	ALC	Oman Integral
	KD	KD	KD	KD	KD	KD
Total assets	33,360,246	58,498,480	38,240,074	11,053,894	23,246,114	10,826,797
Total liabilities and non-controlling interests	(10,043,861)	(40,019,382)	(21,139,413)	(51,186)	(5,793,930)	(3,478,303)
Equity attributable to parent company	23,316,385	18,479,098	17,100,661	11,002,708	17,452,184	7,348,494
Group's share in equity %	24.5%	31.5%	33.4%	26.5%	33%	50.0%
Group's share in associate	5,720,433	5,820,916	5,709,342	2,917,624	5,759,221	3,674,247
Goodwill	-	-	-	-	-	112,822
Group's carrying amount in associate	5,720,433	5,820,916	5,709,342	2,917,624	5,759,221	3,787,069
Contingent liabilities and commitments	-	-	-	-	-	-

2019	Mashaer	Hajar	Rawahel	Al-Jaddaf	ALC	Oman Integral
	KD	KD	KD	KD	KD	KD
Revenue	3,421,574	6,116,114	3,437,368	2,481	3,069,472	5,674,173
Profit (loss)	1,658,585	3,795,016	775,930	(8,482)	1,954,191	(159,522)
Other comprehensive income	632,647	-	48,695	-	-	-
Total comprehensive income	2,291,232	3,795,016	824,625	(8,482)	1,954,191	(159,522)
Dividend from associates	-	-	207,950	-	1,096,458	-

The fair value of one of the associates is KD 3,699,608 and the fair value of the remaining associates is not readily available since it is not listed in the stock market.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 16 INVESTMENT PROPERTIES

	2020	2019
	KD	KD
As at 1 January	123,563,008	140,655,853
Additions	192,395	2,378,468
Disposals	(1,607,000)	(19,324,521)
Valuation (losses) gains from investment properties	(69,566)	28,581
Write off of an investment property (Note 10)	-	(525,000)
Derecognition of properties due to loss of control over subsidiaries	(92,576,754)	-
Exchange differences	51,641	349,627
As at 31 December	29,553,724	123,563,008
Developed properties	29,553,724	119,594,655
Properties under development	-	3,968,353
	29,553,724	123,563,008

During the current year, the Group has sold investment properties with an aggregate carrying value of KD 1,607,000 (2019: KD 19,324,521) for a total cash consideration of KD 1,800,000 (2019: KD 20,506,000) resulting in a gain on sale of amounting to KD 193,000 (2019: KD 1,181,479) recognised in the consolidated statement of profit or loss from discontinued operations for the year then ended.

Investment properties with a carrying value of KD 18,437,370 (2019: KD 68,310,252) have been pledged as a collateral for Islamic finance payables. The Parent Company is in the process of releasing these collaterals further to its debt settlement agreements signed with creditors (Note 24).

During the year ended 31 December 2020, investment properties with a carrying value of KD 92,576,754 owned by Tawazun and AREC has been derecognised due to loss of control over Tawazun and AREC as a result of the debt settlement agreement (Note 24).

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 is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. Under the market comparison approach, fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square meter ('sqm'). Based on these valuations, the fair value of investment properties witnessed an decline of KD 69,566 compared to its carrying values as at 31 December 2020 (increase in fair value during 2019: KD 28,581). The Group classifies its investment properties as Level 2 in the fair value measurement hierarchy (Note 34).

Significant increases (decreases) in estimated price per square metre, estimated rental value and rent growth per annu, in isolation would result in a significantly higher (lower) fair value on a linear basis. Significant increases (decreases) in the long-term vacancy rate and discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 17 OTHER ASSETS

	2020	2019
	KD	KD
Trade receivables, net	3,357,281	3,924,505
Receivables from sale of real estate	-	20,000
Prepaid expenses	837,819	986,503
Amounts due from related parties (Note 29)	734,681	2,518,065
Advances to suppliers	2,168	27,172
Inventories	36,496	642,123
Refundable deposits	854,153	715,266
Dividend receivables	1,006,882	792,367
Other receivables	156,163	1,417,743
	6,985,643	11,043,744

As at 31 December 2020, the Group's carrying amount of trade receivables is net of an allowance for expected credit losses of KD 8,440,383 (2019: KD 8,753,696).

Set out below is the movement in the allowance for expected credit losses of trade receivables and provision for impairment of other assets:

	2020	2019
	KD	KD
As at 1 January	15,015,721	13,268,442
Impairment of other assets for continuing operations (Note 10) *	438,827	2,314,028
Impairment of other assets for discontinuing operations *	499,081	124,480
Allowance for expected credit losses (ECL) on trade receivables included under continuing operations (Note 10)	356,921	848,001
Allowance for expected credit losses (ECL) on trade receivables included under discontinuing operations	45,171	(27,732)
Write-offs **	(1,556,210)	(1,492,810)
Reclassification to assets held for sale	(174,358)	-
Derecognition upon loss of control over subsidiaries	(639,796)	-
Foreign exchange movement	-	(18,688)
As at 31 December	13,985,357	15,015,721

\* This represents impairment on receivable balances other than trade receivables.

\*\* This represents write-off of receivable balances (including trade receivables of KD 519,791) that are deemed uncollectable.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 18 PROPERTY AND EQUIPMENT

	Leasehold lands	Buildings	Furniture and fixtures	Tools and office equipment	Motor vehicles	Leased motor vehicles	Right-of-use asset	Total
	KD	KD	KD	KD	KD	KD	KD	KD
<b>Cost and valuation</b>								
As at 1 January 2020	11,537,000	3,296,544	714,449	5,608,659	1,672,489	52,509,976	5,140,002	80,479,119
Additions	-	2,299	5,364	37,808	-	15,985,822	-	16,031,293
Revaluation adjustment	837,000	-	-	-	-	-	-	837,000
Transfers	-	-	-	-	(112,841)	(9,645,329)	-	(9,758,170)
Reclassified to assets held for disposal	(693,000)	(637,990)	(13,197)	(1,522,065)	(24,121)	-	(101,904)	(2,992,277)
Derecognition upon loss of control oversubsidiaries	-	-	(131,532)	(173,767)	-	-	-	(305,299)
Disposals	-	-	-	(61,289)	-	(9,513,712)	-	(9,575,001)
	_____	_____	_____	_____	_____	_____	_____	_____
As at 31 December 2020	<b>11,681,000</b>	<b>2,660,853</b>	<b>575,084</b>	<b>3,889,346</b>	<b>1,535,527</b>	<b>49,336,757</b>	<b>5,038,098</b>	<b>74,716,665</b>
	_____	_____	_____	_____	_____	_____	_____	_____
<b>Depreciation and impairment</b>								
As at 1 January 2020	-	430,426	676,591	5,166,488	1,354,626	11,417,041	1,295,447	20,340,619
Depreciation charge for the year	-	107,415	7,525	45,989	86,670	8,194,070	1,305,409	9,747,078
Impairment (Note 10)	-	-	-	-	-	195,681	-	195,681
Transfers	-	-	-	-	(111,519)	(9,646,651)	-	(9,758,170)
Reclassified to assets held for disposal	-	(263,181)	(13,197)	(1,294,400)	(22,129)	-	(85,778)	(1,678,685)
Derecognition upon loss of control over subsidiaries	-	-	(120,045)	(160,510)	-	-	-	(280,555)
Disposals	-	-	-	(2,576)	-	-	-	(2,576)
	_____	_____	_____	_____	_____	_____	_____	_____
As at 31 December 2020	<b>-</b>	<b>274,660</b>	<b>550,874</b>	<b>3,754,991</b>	<b>1,307,648</b>	<b>10,160,141</b>	<b>2,515,078</b>	<b>18,563,392</b>
	_____	_____	_____	_____	_____	_____	_____	_____
<b>Net book value</b>								
As at 31 December 2020	<b>11,681,000</b>	<b>2,386,193</b>	<b>24,210</b>	<b>134,355</b>	<b>227,879</b>	<b>39,176,616</b>	<b>2,523,020</b>	<b>56,153,273</b>
	=====	=====	=====	=====	=====	=====	=====	=====

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 18 PROPERTY AND EQUIPMENT (continued)

	Leasehold lands	Buildings	Furniture and fixtures	Tools and office equipment	Motor vehicles	Leased motor vehicles	Right-of- use asset	Total
	KD	KD	KD	KD	KD	KD	KD	KD
<i>Cost and valuation</i>								
As at 1 January 2019	10,946,000	3,309,306	696,296	5,541,949	2,572,555	55,251,104	-	78,317,210
Impact of adopting IFRS 16	-	-	-	-	-	-	5,140,002	5,140,002
	=====	=====	=====	=====	=====	=====	=====	=====
As at 1 January 2019 (restated)	10,946,000	3,309,306	696,296	5,541,949	2,572,555	55,251,104	5,140,002	83,457,212
Additions	-	113,078	18,153	66,710	642	18,662,116	-	18,860,699
Revaluation adjustment	591,000	-	-	-	-	-	-	591,000
Transfer	-	-	-	-	(90,708)	(9,256,894)	-	(9,347,602)
Disposals	-	(125,840)	-	-	(810,000)	(12,146,350)	-	(13,082,190)
	=====	=====	=====	=====	=====	=====	=====	=====
As at 31 December 2019	11,537,000	3,296,544	714,449	5,608,659	1,672,489	52,509,976	5,140,002	80,479,119
	=====	=====	=====	=====	=====	=====	=====	=====
<i>Depreciation and impairment</i>								
As at 1 January 2019	-	409,346	662,397	5,078,806	1,333,994	11,623,525	-	19,108,068
Depreciation charge for the year	-	139,617	14,194	87,682	99,762	9,061,988	1,295,447	10,698,690
Impairment (Note 10)	-	7,303	-	-	-	-	-	7,303
Transfer	-	(125,840)	-	-	(79,130)	(9,268,472)	-	(9,473,442)
	=====	=====	=====	=====	=====	=====	=====	=====
As at 31 December 2019	-	430,426	676,591	5,166,488	1,354,626	11,417,041	1,295,447	20,340,619
	=====	=====	=====	=====	=====	=====	=====	=====
<i>Net book value</i>								
As at 31 December 2019	11,537,000	2,866,118	37,858	442,171	317,863	41,092,935	3,844,555	60,138,500
	=====	=====	=====	=====	=====	=====	=====	=====

### 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:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 18 PROPERTY AND EQUIPMENT (continued)

	2020	2019
	KD	KD
Within one year	9,928,202	10,363,412
After one year but not more than five years	5,320,277	5,341,609
	<u>15,248,479</u>	<u>15,705,021</u>

Leasehold lands primarily comprise of lands which are leased from the government of State of Kuwait. The carrying value of leasehold lands are KD 11,681,000 (2019: KD 11,537,000).

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

	2020	2019
	KD	KD
Depreciation of motor vehicles (Note 6)	8,280,740	9,161,750
Depreciation expense of right-of-use asset relating to leasehold rights	1,084,164	957,210
Depreciation expense included in the consolidated statement of profit or loss	382,174	579,730
	<u>9,747,078</u>	<u>10,698,690</u>

### Revaluation of leasehold lands

Leasehold lands are recognised at fair value using the market comparable approach. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset 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).

Significant unobservable valuation input	Range
Price per square metre	KD 140 – KD 1,250

Significant increases (decreases) in estimated price per square metre in isolation would result in a significantly higher (lower) fair value on a linear basis.

## 19 LEASEHOLD RIGHTS

	2020	2019
	KD	KD
As at 1 January	4,112,041	5,443,802
Amortisation (Note 7)	(1,335,415)	(1,331,761)
As at 31 December	<u>2,776,626</u>	<u>4,112,041</u>

Leasehold rights represents the Group's investment in a real estate project. Leasehold rights is amortised over the remaining lease term expiring on January 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 20 SHARE CAPITAL

	Number of shares		Authorised, issued and fully paid	
	2020	2019	2020	2019
	KD		KD	
Shares of 100 fils each (paid in cash)	814,038,824	814,038,824	81,403,882	81,403,882

## 21 RESERVES

### 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.

### General reserve

- No transfers were made to the general reserve during the year.
- The general reserve (along with treasury shares reserve) of the Parent Company are maintained against the historical cost of treasury shares and is not available for distribution throughout the holding period of these treasury shares (Note 23).

## 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.

## 23 TREASURY SHARES AND TREASURY SHARES RESERVE

	2020	2019
Number of treasury shares	12,364,842	12,364,842
Percentage of issued shares	1.5%	1.5%
Cost - (KD)	11,339,726	11,339,726
Market value - (KD)	1,133,856	573,729
Weighted average market price - (fils)	91.7	46.4

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 24 ISLAMIC FINANCE PAYABLES, DEBT SETTLEMENT AND DISCONTINUED OPERATIONS

	2020	2019
	KD	KD
Relating to the Parent Company <sup>1</sup>	9,902,508	136,874,221
Relating to subsidiaries <sup>2</sup>	1,821,521	15,087,281
	<u>11,724,029</u>	<u>151,961,502</u>

<sup>1</sup> Islamic finance payables of the Parent Company are secured against collaterals in the form of investment properties as agreed in restructuring agreements amounting to KD 12.2 million (2019: KD 45 million), investment in an associate amounting to KD 4.6 million (2019: KD 17 million) and shares of certain consolidated subsidiaries. The Parent Company is in the process of releasing these collaterals further to its debt settlement agreements signed with creditors

<sup>2</sup> Islamic finance payables relating to the subsidiaries of the Group are secured against collaterals in the form of investment properties amounting to KD 6.3 million (2019: KD 23 million) (Note 16).

During 2015, the Parent Company approached the lenders to reschedule the entire previously restructured debt amounting to KD 160 million (included in the total Islamic finance payables of the Parent Company until 31 December 2016) on a long term basis and also submitted an application to the Central Bank of Kuwait and Financial Stability Law (FSL) Court for the amendment of the Original FSL application requesting an amendment in the repayment plans to be extended until the first quarter of 2021, by submitting a revised business plan detailing the sources of future cash flows.

On 15 June 2017, the Parent Company obtained approval from the Special Circuit of the Court of Appeal (the FSL Judgement) on the amendment of the financial restructuring plan submitted by the Parent Company for rescheduling the outstanding Islamic finance payables of KD 160 million until the first quarter of 2021, which has become effective and enforceable against all lenders. The Parent Company has made principal repayment of KD 15 million and KD 10 million on 11 September 2017 and on 29 March 2018, respectively.

At 28 March 2019 and 31 March 2020, an amount of KD 10 million and KD 30 million respectively, were due for repayment. However, the Parent Company has negotiated a final settlement plan ("proposed plan") of its Islamic finance payables of which the majority of creditors consented to. Accordingly, the Parent Company applied to the FSL Court its proposed plan, which was received and initialled by the Head of the Special Circuit Court for restructuring requests and referred to the Central Bank of Kuwait (CBK) for further assessment and approval.

On 3 March 2019, the Parent Company submitted its request for the proposed plan to the FSL Court. However, the Court of Appeal in the hearing dated 4 December 2019 rejected the Parent Company's request for the proposed plan. Notwithstanding the above, the Parent Company filed an appeal before the Court of Cassation on the basis of error in the application and interpretation of the law and flawed reasoning of the court. Further, the Parent Company filed a cross-appeal and requested the suspension of execution order of the appeal verdict during the pendency of the appeal which was accepted by the respective court on 5 January 2020.

On 19 August 2020, the Court of Cassation 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 during the period extending to the end of 2024.

Subsequent to the final verdict, in September 2020 and during the fourth quarter of 2020, the Parent Company reached a settlement with lenders amounting KD 127,043,106 of the total outstanding Islamic financing payables, with the elements of debt settlement terms as follows:

- 20% deduction ("hair-cut") of the total outstanding Islamic financing payables;
- Cash settlement of KD 10 million from Parent Company;
- Cash settlement of KD 10 million from Tawazun (a fully owned subsidiary as at 30 September 2020) as a deduction from the net asset value of Tawazun;
- Transfer of Tawazun shares for the remaining outstanding Islamic financing payables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 24 ISLAMIC FINANCE PAYABLES, DEBT SETTLEMENT AND DISCONTINUED OPERATIONS (continued)

During the year ended 31 December 2020 and further to the debt settlement agreements signed with creditors during the year then ended, the Parent Company recognised a gain on debt settlement amounting to KD 25,395,989 being 20% hair-cut of the carrying amount of the Islamic finance payables (included within continuing operations in the consolidated statement of profit or loss). Furthermore, the Parent Company transferred cash amounting to KD 17,559,256 and shares in Tawazun against the remaining Islamic finance payables amounting to KD 83,201,664 (cash KD 849,397 relating to debt settlement agreements signed during the year that was due payable as at 31 December 2020, has been included within other liabilities (Note 25) and subsequently paid).

As at 31 December 2020, the signed debt settlement agreements represented 95% of the Parent Company's stake in Tawazun and control have been transferred to the creditors. Consequently, the 5% retained interest in Tawazun have been recognised as financial assets at fair value through other comprehensive income amounting to KD 4,340,771 and the 15.1% retained interest in AREC have been accounted for as an investment in associate amounting to KD 4,702,891 (Note 15).

The results and other comprehensive income of the discontinued operations for the year are presented below:

	2020	2019
	KD	KD
Income	(1,197,708)	6,313,025
Expenses	(2,127,096)	(1,739,144)
<b>(Loss) profit from discontinued operation before taxes</b>	<b>(3,324,804)</b>	4,573,881
Taxes	(4,767)	(77,768)
<b>(Loss) profit from discontinued operation after taxes</b>	<b>(3,329,571)</b>	4,496,113
Net loss on disposal of subsidiaries <sup>1</sup>	(6,452,064)	-
<b>(Loss) profit from discontinued operation</b>	<b>(9,781,635)</b>	4,496,113
<b>Other comprehensive income (loss)</b>	<b>206,294</b>	(296,057)
<b>Total comprehensive (loss) income from discontinued operation</b>	<b>(9,575,341)</b>	4,200,056

Revenue and expenses arising from core business of the Group that have been retained are considered as revenue and expenses from continuing operations, during the current year and in the comparative information. All other revenue and expenses, including loss of disposal of subsidiaries (Tawazun and AREC), are considered as revenue and expenses from discontinued operations in the current period and in the comparative information.

<sup>1</sup> The net impact of the deconsolidation and derocognition of Tawazun and AREC as subsidiaries and the recognition of the retained interests Tawazun and AREC at fair value is as follows:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 24 ISLAMIC FINANCE PAYABLES, DEBT SETTLEMENT AND DISCONTINUED OPERATIONS (continued)

	2020
	KD
Loss on recognition of 15.1% retained interest in AREC	(5,581,747)
Loss on recognition of 5% retained interest in Tawazun	(384,396)
Transferred to discontinued operations upon disposal	(1,030,847)
Gain on derecognition of Tawazun	471,193
Others	73,733
Net loss on disposal of subsidiaries	(6,452,064)

The net cash flows associated with the Tawazun and AREC are as follows:

	2020	2019
	KD	KD
Operating	538,270	1,498,499
Investing	2,790,072	19,988,063
Financing	(1,324,217)	(2,055,079)
	2,004,125	19,431,483

## 25 OTHER LIABILITIES

	2020	2019
	KD	KD
Trade payables	5,878,865	6,750,931
Payables to financing customers on repossession of properties	-	3,551,067
Real estate payables	708,791	973,867
Advances from customers and security deposits	1,571,441	2,525,864
Provision for employees' end of service benefits and accrued staff leave	3,684,114	4,290,899
Dividends payable	241,477	574,712
Amounts due to related parties (Note 29)	198,074	161,721
Provisions and other accruals	9,737,350	11,439,452
Lease liabilities	2,585,465	3,925,426
Liabilities pertaining to debt settlement (Note 24)	849,397	-
Other payables	5,441,881	5,031,681
	30,896,855	39,225,620

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 25 OTHER LIABILITIES (continued)

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

	2020	2019
	KD	KD
As at 1 January	3,925,426	5,140,002
Finance costs	113,547	78,855
Payments	(1,044,321)	(1,293,431)
Rent concessions	(348,800)	-
Reclassified to liabilities directly associated with assets classified as held for disposal	(60,387)	-
<b>As at 31 December</b>	<b>2,585,465</b>	<b>3,925,426</b>

## 26 PROPOSED DIVIDENDS, DIRECTORS' REMUNERATION AND ANNUAL GENERAL ASSEMBLY MEETING (AGM)

The Board of Directors of the Parent Company did not propose any cash dividends or bonus shares for the year ended 31 December 2020. Further, no directors' remuneration have been proposed for the year then ended.

The annual general assembly meeting ("AGM") of the shareholders of the Parent Company held on 14 June 2020 approved the consolidated financial statements for the year ended 31 December 2019. No cash dividends or bonus shares were declared for the year then ended.

## 27 COMMITMENTS AND CONTINGENCIES

### Commitments

The Group has no commitments in respect of future capital expenditure (2019: KD 168,997) relating to ongoing projects under construction.

### Contingent liabilities

At 31 December 2020, the Group's bankers have provided bank guarantees, amounting to KD 458,752 (2019: KD 314,337) from which it is anticipated that no material liabilities will arise.

## 28 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 2020, assets under management amounted to KD 45,473,260 (2019: KD 47,530,623). Income earned from fiduciary assets amounted to KD 100,933 for the year ended 31 December 2020 (2019: KD 196,730).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 29 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:

	Associates	Major shareholders	Other related parties	Total 2020	Total 2019
	KD	KD	KD	KD	KD
Finance costs	-	402,438	-	402,438	773,713
Advisory and management fees	-	-	120,710	120,710	251,953

	Associates	Major shareholders	Other related parties	Total 2020	Total 2019
	KD	KD	KD	KD	KD
Cash and cash equivalents	-	328,706	-	328,706	1,016,327
Amounts due from related parties (Note 17)	82,986	-	651,695	734,681	2,518,065
Islamic finance payables	-	1,821,520	-	1,821,520	32,490,538
Amounts due to related parties (Note 25)	198,074	-	-	198,074	161,721

### 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 2020, the Group has not recognised any allowance for expected credit losses relating to amounts owed by related parties (2019: 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.

	2020	2019
	KD	KD
Salaries and other short term benefits	1,364,350	1,373,400
Employees end of service benefits	150,209	187,315
	=====	=====
	1,514,559	1,560,715
	=====	=====

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 30 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.
- **Assets held for disposal/ discontinued operations:** upon loss of control of Tawazun, AREC, and Batic Manufacturing Company W.L.L. ("Batic") through Mubarrad (Note 5).

	Islamic financing	Leasing sector	Real estate	Proprietary investment and assets management	Others	Assts held for disposal / discontinued operations	Total
	KD	KD	KD	KD	KD	KD	KD
<b>2020</b>							
Total assets	-	72,849,933	22,407,498	33,200,612	16,253,380	1,979,363	146,690,786
Total liabilities	49,906	12,427,630	4,487,559	7,699,728	17,956,061	479,363	43,100,247
Goodwill	-	-	-	91,005	-	-	91,005
<b>Year ended 31 December 2020</b>							
Revenue	13,762	9,680,143	846,938	1,920,821	25,395,989	(7,649,772)	30,207,881
Segment (loss) profit	(196,976)	3,449,355	(748,184)	(3,550,977)	30,873,198	(9,781,635)	20,044,781
Depreciation	-	(8,645,864)	(1,087,840)	(760)	-	(12,614)	(9,747,078)
Amortisation of leasehold rights	-	-	(1,335,415)	-	-	-	(1,335,415)
Net impairment losses	51,555	(405,716)	(1,025,732)	(440,129)	-	(544,252)	(2,364,274)
Share of results of associates	-	-	-	(347,841)	-	(3,391,510)	(3,739,351)
<b>Other disclosures:</b>							
Capital expenditure	-	15,985,822	-	-	45,471	-	16,031,293
Investment in associates	-	-	-	8,497,741	-	-	8,497,741

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 30 SEGMENT INFORMATION (continued)

	Islamic financing	Leasing sector	Real estate	Proprietary investment and assets management	Others	Assts held for disposal / Discontinued operations	Total
	KD	KD	KD	KD	KD	KD	KD
As at 31 December 2019							
Total assets	-	83,188,139	58,061,673	121,173,230	34,483,376	-	296,906,418
Total liabilities	689,813	62,761,518	21,443,930	89,886,534	16,405,327	-	191,187,122
Goodwill	-	-	-	91,005	-	-	91,005
Year ended 31 December 2019							
Revenue	39,747	10,914,166	1,476,633	(2,833,135)	-	6,313,025	15,910,436
Segment profit (loss)	(84,700)	1,867,727	(1,093,755)	(17,745,727)	(733,987)	4,496,113	(13,294,329)
Depreciation	-	(9,556,305)	(960,587)	(159,634)	-	(22,164)	(10,698,690)
Amortisation of leasehold rights	-	-	(1,331,761)	-	-	-	(1,331,761)
Net impairment losses	154,991	(1,971,177)	(1,408,761)	(9,236,050)	(752,352)	499,159	(12,714,190)
Share of results of associates	-	-	-	(5,843,421)	-	1,936,783	(3,906,638)
Other disclosures: Capital expenditure	-	18,662,116	-	-	198,583	-	18,860,699
Investment in associates	-	11,369,752	-	18,344,855	-	-	29,714,607

### Geographical information

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

## 31 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

### 31.1 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 Islamic finance receivables, 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:

	2020	2019
	KD	KD
Cash and short-term deposits	33,851,865	51,385,649
Trade receivables	3,357,281	3,924,505
Receivables from related parties	734,681	2,518,065
Other receivables	2,893,681	4,601,174
Islamic finance receivables	-	23,243
Assets held for disposal	665,771	-
	<hr/>	<hr/>
	41,503,279	62,452,636
	<hr/>	<hr/>

### 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

The Group uses a provision matrix based on the Group's historical observed default rates to measure the ECLs of trade 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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

### 31.1 Credit risk (Continued)

#### Trade receivables (continued)

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

	Trade receivables			
31 December 2020		Days past due		
	Current	91-180 days	>180 days	Total
	KD	KD	KD	KD
Estimated total gross carrying amount at default	1,180,450	1,734,462	8,882,752	11,797,664
Estimated credit loss	333,234	738,394	7,368,755	8,440,383
Expected credit loss rate	28%	43%	83%	72%

	Trade receivables			
31 December 2019		Days past due		
	Current	91-180 days	>180 days	Total
	KD	KD	KD	KD
Estimated total gross carrying amount at default	1,438,239	412,813	10,827,149	12,678,201
Estimated credit loss	312,170	112,971	8,328,555	8,753,696
Expected credit loss rate	22%	27%	77%	69%

#### Other receivables and amounts due from related parties

Other receivables and 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 was immaterial.

#### Islamic finance receivables

##### Definition of default

The Group considers Islamic finance receivables to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

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

Any credit impaired or stressed facility that has been restructured would also be considered as in default.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

### 31.1 Credit risk (continued)

The Group considers a variety of indicators that may indicate unlikelihood to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- ▶ Significant financial difficulty of the borrower or issuer;
- ▶ A breach of contract such as default or past due event; or
- ▶ The lender having granted to the borrower a concession, that the lender would otherwise not consider, for economic or contractual reasons relating to the borrower's financial difficulty
- ▶ Borrower is deceased

The Group considers a financial asset as 'cured' (i.e. no longer be in default) and therefore reclassified out of stage 3 when it no longer meets any of the default criteria. In respect of restructured facilities which are classified in stage 3, these would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year, or as determined by the Group for consideration for classifying the facility in stage 2/stage 1.

#### 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.

#### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

### 31.2 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:

2020	Less than 3 months	3 to 12 months	1 to 5 years	Total
	KD	KD	KD	KD
Islamic finance payables	1,821,521	9,902,508	-	11,724,029
Lease liabilities	346,120	1,036,860	1,295,696	2,678,676
Other liabilities*	5,146,922	5,356,100	13,813,327	24,316,349
	<u>7,314,563</u>	<u>16,295,468</u>	<u>15,109,023</u>	<u>38,719,054</u>
2019	Less than 3 months	3 to 12 months	1 to 5 years	Total
	KD	KD	KD	KD
Islamic finance payables	41,321,252	7,726,056	103,282,873	152,330,181
Lease liabilities	346,470	1,099,797	2,687,810	4,134,077
Other liabilities*	4,843,972	9,905,384	15,589,708	30,339,064
	<u>46,511,694</u>	<u>18,731,237</u>	<u>121,560,391</u>	<u>186,803,322</u>

\* excluding advances and provisions

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

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

### 31.3 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.

#### 31.3.1 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. The Group's exposure to equity price risk is not significant as its investment portfolio mainly comprises of unquoted equity securities and funds, where the Group does not hold any material positions.

#### 31.3.2 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.

#### 31.3.3 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 has a net liability exposure in US Dollar (USD) at 31 December 2020 equivalent to KD 5,678,920 (2019: US Dollar (USD) and Emirati Dinars (AED) exposure of KD 32,582,030).

The following tables demonstrate the sensitivity to a reasonably possible change in exchange rates, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	2020		2019	
Currency	Change in currency rate	Effect on results	Change in currency rate	Effect on results
		KD		KD
US Dollars	+5%	283,946	+5%	1,444,947
AED	+5%	-	+5%	184,155

An equal change in the opposite direction against the KD would have resulted in an equivalent but opposite impact.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 32 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.

At 31 December 2020	Within 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Total
	KD	KD	KD	KD	KD	KD
<b>ASSETS</b>						
Cash and short-term deposits	33,799,910	-	-	51,955	-	33,851,865
Islamic finance receivables	-	-	-	-	-	-
Financial assets at FVTPL	-	-	58,472	1,409,631	992,672	2,460,775
Financial assets at FVOCI	-	-	4,340,771	-	-	4,340,771
Investment in associates	-	-	-	-	8,497,741	8,497,741
Investment properties	-	-	-	-	29,553,724	29,553,724
Other assets	2,311,857	859,498	463,384	1,919,089	1,431,815	6,985,643
Property and equipment	6,723,500	4,639,424	8,635,784	21,907,621	14,246,944	56,153,273
Leasehold rights	-	-	-	-	2,776,626	2,776,626
Goodwill	-	-	-	-	91,005	91,005
	42,835,267	5,498,922	13,498,411	25,288,296	57,590,527	144,711,423
Assets held for disposal	1,979,363	-	-	-	-	1,979,363
<b>TOTAL ASSETS</b>	<b>44,814,630</b>	<b>5,498,922</b>	<b>13,498,411</b>	<b>25,288,296</b>	<b>57,590,527</b>	<b>146,690,786</b>
<b>LIABILITIES</b>						
Islamic finance payables	1,821,521	-	9,902,508	-	-	11,724,029
Other liabilities	6,238,695	1,993,799	4,589,938	15,016,317	3,058,106	30,896,855
	8,060,216	1,993,799	14,492,446	15,016,317	3,058,106	42,620,884
Liabilities directly associated with assets classified as held for disposal	479,363	-	-	-	-	479,363
<b>TOTAL LIABILITIES</b>	<b>8,539,579</b>	<b>1,993,799</b>	<b>14,492,446</b>	<b>15,016,317</b>	<b>3,058,106</b>	<b>43,100,247</b>
<b>NET</b>	<b>36,275,051</b>	<b>3,505,123</b>	<b>(994,035)</b>	<b>10,271,979</b>	<b>54,532,421</b>	<b>103,590,539</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 32 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	Within 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Total
	KD	KD	KD	KD	KD	KD
ASSETS						
Cash and short-term deposits	51,333,942	-	-	51,707	-	51,385,649
Islamic finance receivables	17,433	5,810	-	-	-	23,243
Trading properties	-	-	14,381,812	-	-	14,381,812
Financial assets at FVTPL	-	45,216	156,000	1,545,171	423,997	2,170,384
Financial assets at FVOCI	-	-	-	282,425	-	282,425
Investment in associates	-	-	-	25,634,121	4,080,486	29,714,607
Investment properties	-	-	-	94,016,895	29,546,113	123,563,008
Other assets	5,408,395	1,383,104	3,232,320	881,094	138,831	11,043,744
Property and equipment	6,335,227	4,503,740	7,647,502	25,265,276	16,386,755	60,138,500
Leasehold rights	-	-	-	-	4,112,041	4,112,041
Goodwill	-	-	-	-	91,005	91,005
	=====	=====	=====	=====	=====	=====
TOTAL ASSETS	63,094,997	5,937,870	25,417,634	147,676,689	54,779,228	296,906,418
	=====	=====	=====	=====	=====	=====
LIABILITIES						
Islamic finance payables	41,290,736	2,838,505	4,699,502	101,241,411	1,891,348	151,961,502
Other liabilities	6,313,366	2,599,198	8,517,560	18,357,119	3,438,377	39,225,620
	=====	=====	=====	=====	=====	=====
TOTAL LIABILITIES	47,604,102	5,437,703	13,217,062	119,598,530	5,329,725	191,187,122
	=====	=====	=====	=====	=====	=====
NET	15,490,895	500,167	12,200,572	28,078,159	49,449,503	105,719,296
	=====	=====	=====	=====	=====	=====

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 33 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.

Changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2020 as disclosed in Note 24.

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.

	2020	2019
	KD	KD
Islamic finance payables	11,724,029	151,961,502
Other liabilities	29,894,122	37,892,221
Less: Cash and short-term deposits	(33,851,865)	(51,385,649)
<b>Net debt</b>	<b>7,766,286</b>	138,468,074
Equity attributable to the equity holders of the Parent Company	91,190,060	68,415,066
<b>Capital and net debt</b>	<b>98,956,346</b>	206,883,140
Gearing ratio	8%	67%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 34 FAIR VALUE MEASUREMENT

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.

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

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	KD	KD	KD	KD
<b>31 December 2020</b>				
<b>Assets measured at fair value:</b>				
<b>Investment securities:</b>				
Financial assets at FVOCI	329,253	930,046	1,201,476	2,460,775
Financial assets at FVTPL	-	-	4,340,771	4,340,771
<b>Investment properties:</b>				
Investment properties	-	29,553,724		29,553,724
<b>Revalued property and equipment:</b>				
Leasehold lands	-	11,681,000	-	11,681,000
	329,253	42,164,770	5,542,247	48,036,270
<b>Assets for which fair values are disclosed:</b>				
Leasehold property	-	2,776,626	-	2,776,626

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 34 FAIR VALUE MEASUREMENT (continued)

### Fair value hierarchy (continued)

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	KD	KD	KD	KD
31 December 2019				
Assets measured at fair value:				
Investment securities:				
Financial assets at FVTPL	213,421	864,402	1,092,561	2,170,384
Financial assets at FVOCI	58,874	-	223,551	282,425
Investment properties:				
Investment properties	-	123,563,008	-	123,563,008
Revalued property and equipment:				
Leasehold lands	-	11,537,000	-	11,537,000
	272,295	135,964,410	1,316,112	137,552,817
Assets for which fair values are disclosed:				
Leasehold rights	-	4,112,041	-	4,112,041

There were no transfers between any levels of the fair value hierarchy during 2020 or 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

## 34 FAIR VALUE MEASUREMENT (continued)

### 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:

	Financial assets at FVOCI	Financial assets at FVTPL	Total
	KD	KD	KD
As at 1 January 2020	223,551	1,092,561	1,316,112
Additions	4,340,771	249,202	4,589,973
Deemed disposal due to loss of control over subsidiaries	(222,773)	-	(222,773)
Remeasurements	(778)	(140,287)	(141,065)
<b>As at 31 December 2020</b>	<b>4,340,771</b>	<b>1,201,476</b>	<b>5,542,247</b>

	Financial assets at FVOCI	Financial assets at FVTPL	Total
	KD	KD	KD
As at 1 January 2019	338,700	1,391,327	1,730,027
Remeasurement recognised in OCI	(115,149)	-	(115,149)
Remeasurement recognised in profit or loss	-	(298,766)	(298,766)
Purchases / sales (net)	-	-	-
As at 31 December 2019	223,551	1,092,561	1,316,112

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.

## 35 IMPACT OF COVID-19 OUTBREAK

The Covid-19 outbreak was first reported near the end of 2019. At that time, a cluster of cases displaying the symptoms of a 'pneumonia of unknown cause' were identified in Wuhan, the capital of China's Hubei province. On 31 December 2019, China alerted the World Health Organisation (WHO) of this new virus. On 30 January 2020, the International Health Regulations Emergency Committee of the WHO declared the outbreak a 'Public Health Emergency of International Concern'. Since then, the virus has spread worldwide. On 11 March 2020, the WHO declared the Covid-19 outbreak to be a pandemic.

The currently known impact of COVID-19 on the Group are:

- ▶ A decline in net income from leasing operations for the year ended 31 December 2020 compared to the prior year by 9% due to government measures taken to temporarily close showrooms.
- ▶ A decline in rental income from investment properties and leasehold rights for the year ended 31 December 2020 compared to prior year by 26% due to rent concessions provided to lessees and government measures taken to temporarily close shopping malls and commercial properties.

The measures to slow the spread of Covid-19 have had a significant impact on the global economy. Governments worldwide imposed travel bans and strict quarantine measures. Businesses are dealing with lost revenue and disrupted supply chains. While the country has started to ease the lockdown, the relaxation has been gradual. The Covid-19 pandemic has also resulted in significant volatility in financial markets and as a result, the government has announced measures to provide financial assistance to the private sector.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2020

Entities should consider whether to disclose the measures they have taken, in line with the recommendations of the WHO and national health authorities, to preserve the health of their employees and support the prevention of contagion in their administrative and operational areas, such as working from home, reduced work shifts in operational areas to minimise the number of workers commuting, rigorous cleaning of workplaces, distribution of personal protective equipment, testing of suspected cases and measuring body temperature.

As a result, the Group considered the impact of Covid-19 in preparing its consolidated financial statements. While the specific areas of judgement may not change, the impact of Covid-19 resulted in the application of further judgement within those areas.

Given the evolving nature of Covid-19 and the limited recent experience of the economic and financial impacts of such a pandemic, changes to estimates may need to be made in the measurement of the Group's assets and liabilities may arise in the future.

## **Trade, lease and other receivables**

The Group was required to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These were primarily related to adjusting the forward-looking estimates used by the Group in the estimation of ECL as the segmentation applied in previous periods may no longer be appropriate and may need to be revised to reflect the different ways in which the COVID-19 outbreak affects different types of customers (e.g. by extending payment terms for trade receivables or by following specific guidance issued by the government in relation to the collection of lease or other payments). The Group will continue to assess impact of the pandemic as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

## **Impairment of non-financial assets**

As at the reporting date, the Group has considered the potential impact of the current economic volatility in the determination of the reported amounts of the Group's non-financial assets and the unobservable inputs are developed using the best available information about the assumptions that market participants would make in pricing these assets at the reporting date. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

The Group acknowledges that certain geographies and sectors in which these assets are located are negatively impacted, and as the situation continues to unfold, the Group will continuously monitor the market outlook and use relevant assumptions in reflecting the values of these non-financial assets as and when they occur.

## **35 IMPACT OF COVID-19 OUTBREAK (continued)**

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

The market disruption caused by the COVID-19 pandemic resulted in a reduction in transactional evidence and market yields, and accordingly, there is an increased risk that the price realised in an actual transaction would differ from the value conclusion arrived by the valuers.

The highly uncertain economic outlook for the period may have a material adverse effect on the tenants' operations, the viability of their business and their ability to meet their rental obligations. This uncertainty is factored into the valuation of investment property, specifically in estimating rent payments from existing tenants, the void periods, occupancy rates, expected market rental growth rates and the discount rate, all of which are significant inputs into the fair value determination. As a result of this increased uncertainty, the assumptions may be revised significantly in 2021.

### **Government assistance**

In an attempt to mitigate the impact of the Covid-19 pandemic, the Government of Kuwait has introduced measures to aid private entities in response to the pandemic. These measures include government assistance made towards national workforce in the private sector for a period of up to six months effective from April 2020.

During the current year, the Group received an aggregate amount of KD 135,497 from the Public Authority for Manpower. The financial support is accounted for in accordance with IAS 20 'Accounting for Government Grants and Disclosures of Government Assistance' and recognised in profit or loss in 'other income' on a systematic basis over the periods in which the Group recognises expenses for the related staff costs. There is no outstanding balance of deferred income or receivable related to this grant as at 31 December 2020.

### **Going concern assessment**

There is still significant uncertainty over how the outbreak will impact the Group's business in future periods and customer demand. Management has therefore modelled a number of different scenarios considering a period of 12 months from the date of authorisation of these consolidated financial statements in the light of current economic conditions and all available information about future risks and uncertainties. The assumptions modelled are based on the estimated potential impact of COVID-19 restrictions and regulations and expected levels of consumer demand, along with management's proposed responses over the course of the year. The impact of COVID-19 may continue to evolve, but based on the Group's liquidity position and financial resources as at the date of authorisation of these consolidated financial statements, the projections show that the Group has ample resources to continue in operational existence and its going concern position remains largely unaffected and unchanged from 31 December 2019. As a result, these consolidated financial statements have been prepared on a going concern basis.

## **36 SUBSEQUENT EVENTS**

The Board of Directors of the Parent Company in their meeting held on 4 February 2021 proposed a partial reduction amounting to KD 10,000,000 in share capital from KD 81,403,882 to KD 71,403,882 by way of cash distribution to the shareholders. This proposal is subject to the approval of the shareholders at the extraordinary general assembly meeting (EGM) after obtaining all necessary regulatory approvals.