







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



His Highness Sheikh

Nawaf 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



**Sheikh Prof. Nayif Al-Hajaj Al-Ajmi** Fatwa and Sharia Supervisory Board Member

# Board of Directors



Mr. Fahad Ali M. Thunayan Al-Ghanim Chairman



**Mr. Nasser Ibrahim Borousli**Board Member



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



**Mr. Talal Reda Behbehani** Board Member



**Mr. Khalid Bader Al-Roumi**Board Member



Mr. Mansour Hamad Al-Mubarak
Board Member and CEO



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

# Chairman's Speech for the Fiscal Year 2019

In the name of Allah, praise be to the Almighty, peace and blessings 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 is my greatest pleasure to welcome you at this annual general meeting to present the Annual Report of A'ayan Leasing & Investment Company, Sharia Supervisory Board's Report, Corporate Governance Report, the Audit Committee Review Report, the Auditor's Report and the financial statements for the year ended 31 December 2019.

2019 saw rising political and economic tensions and events that had effect on continuing investors' poor confidence in many investment sectors in the region. Despite the positive news in the local market, especially the Kuwait Stock Exchange promotions that took place and the Divided Zone Agreement, the prevailing unstable political conditions in the region's markets and global trade tensions disturb such optimism and make it difficult for decision makers to accurately forecast future market trends.

The Company's business this year has witnessed major events in the efforts made in relation to final settlement of the Company's debt. The Company, after initial understandings with its creditors, submitted in April a final settlement request for financial restructuring of its debt to the Financial Stability Court. But unfortunately, after several sessions, the Court decided to reject the request on 4/12/2019, thus the Company has challenged the ruling for cassation and now awaiting the court's decision.

This year has also witnessed the deterioration of the financial position of Abyaar Real Estate Development Company "an associate", reflecting accumulated financial performance losses of KD 5.8 million upto the third quarter. Based on the company's board decision to optionally delist from the Kuwait Stock Exchange and company's share price reaching less than seven fils per share, the board of directors of A'ayan Leasing and Investment Company has decided to impair the value of net investment in Abyaar taking into account the exceptional financial difficulties faced by Abyaar.





## The following table highlights key indicators:

In Kuwaiti Dinars	2019	2018	Change (%)
Net Profit (Loss) attributable to Shareholders of Aayan Leasing & Investment Company	(14,615,445)	3,029,336	
Total revenues	14,688,134	29,259,073	-50%
Total expenses	27,982,463	22,766,242	23%
Total assets	296,906,418	307,055,819	-3%
Total liabilities	191,187,122	186,270,355	3%
Total liabilities to total assets ratio	64%	61%	

In conclusion, we hope that the coming year will witness stability in the various economic sectors in Kuwait, and to reflect positively on the Company's various business activities.

Allah is the best guardian

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



In the Name of Allah, the Most Merciful, 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 Allah 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 financial year ended 31 December 2019 and to briefly highlight the updates on key financial and economic developments in year 2019.

#### **Overview of the Economic Situation During 2019**

#### First: Global Situations

Published reports and researches on the performance of global economy reveal that after the slowdown the global economy has shown during the last three quarters of 2018, global growth stabilized at a weak pace in the first half of 2019. Trade tensions, which had subsided earlier in the year, rose again sharply for the most part of the year, resulting in significant tariff increases between the United States and China and hurting business sentiment and confidence globally, before thawing down in October 2019.

While financial market sentiment has been impaired by these developments, a shift toward accommodative monetary policy implemented in both advanced economies and emerging markets in the second half of the year has been vastly welcomed by investor sentiment. As a result, financial conditions remain generally accommodative and, given the recent de-escalation of tariff disputes between the United States and China, global growth is expected to pick-up in over the short term.

## **Global Economy**

Global growth remains subdued against a backdrop of weaker-than-anticipated global activity resulting from escalating US-China trade tensions, continued Brexit-related uncertainty, and rising regional geopolitical tensions which have disturbed oil markets. In its October 2019 World Economic Outlook (WEO) report, the International Monetary Fund (IMF) forecasted global growth to weaken further in 2019 to reach 3% (revised from April forecast of 3.3%); and 3.6% in 2018. The downside revision made in the latest version of the report (October 2019) reflects softening inflation, subdued investment and demand for consumer durables, as well as significant weakening in manufacturing activity, to levels not seen since the global financial crisis.

On the other hand, the World Trade Organization (WTO), on 1 October 2019, slashed global trade growth in 2019 to 1.2% y/y from 2.6% in its previous forecast in April, which would be the weakest rate since 2009.

However, some signs suggest that world trade volumes have stabilized; registering a growth in the third quarter of 2019 (by around 2% q/q annualized) after contracting for three consecutive quarters. The slight recovery comes in light of counterbalancing developments such as accommodative financial conditions and reduced risk of escalated trade tensions. Forward-looking indicators suggest that world trade volume (and manufacturing activity to a certain extent) is likely to recover in the near term as some signs imply that the global slowdown is reaching a trough.

#### Second: Regional Situations

Energy prices have been repressed in the second half of the year, despite shortages due to (1) further production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and its allies (2) civil conflict in Libya (3) US sanctions on Venezuela and Iran. On the demand side, outlook has been less supportive as OPEC, in its World Oil Outlook, forecasts an estimated 7% decline in oil demand by 2023, with the demand shifting towards Asian economies such as China and India.

As a result of the oil production cuts, growth in the Gulf Cooperation Council (GCC) countries is projected in 2019, notably down from 2% in 2018, before rebounding to 2.5% in 2020, as per the IMF report.

Monetary easing implemented by the Federal Reserve were mirrored by policymakers in the GCC. This would generally reduce borrowing costs for GCC economies, especially given the growing reliance on market funding. Given this, and the inclusion of GCC countries in global equity and bond indices, the region will be further boosted by debt and equity flows, outperforming other emerging market economies.

#### Third: Kuwait - Domestic Conditions

As per IMF data, Kuwait's GDP growth forecast is revised down to 0.6% for 2019 and 3.1% for 2020. The outlook for the local operating environment is uncertain due to the spread of Corona Virus (Covid-19) in China by the end of 2019.

According to published data, project awards picked up to KD 330 million in Q3 2019 from KD 270 million in Q2, mostly coming from the power and water sectors with KD 200 million. However, total projects awarded so far this year have stood at KD 770 million, below expectations, with major projects being repeatedly shifted to future quarters.

Furthermore, Current account surplus widened further in the first half of 2019 to KD 5.8 billion from KD 5 billion in H1 2018. This is on the back of higher investment income, which increased by 66% year-on-year (y/y) to KD 6.3 billion, mainly due to higher returns. Trade balance, however, decreased by 20% y/y to KD 5.7 billion due to lower oil prices.

#### Fourth: Performance of Financial Markets

Reports on the performance of GCC stock markets showed that Boursa Kuwait outperformed GCC stock markets in 2019 achieving the highest yields since 2014. Furthermore statistics reveal that Boursa Kuwait index rose by 23.7% with gains of 32.4% achieved by the premier market. It is worthwhile mentioning that the upgrade of the stock market reflected positively on the performance of the Kuwaiti stocks prior to the closure of 2019 trading sessions.

#### Fifth: Financial Indicators

During year 2019, the Parent Company (Aayan Leasing & Investment Company) recorded Loss of KD 14.6 million represents 18.23 Fils Loss per share and its Equity reached KD 68.4 Million as at the end of year 2019 from KD 81.8 Million at 2018 year end.

The Loss for the year 2019 resulted mainly from recording Impairment Losses charged during the year amounted 12.7 Million KD, which includes 8.5M KD Impairments related to Remaining Investment Exposure with Abyaar Real Estate Development Company ("Abyaar"), one of the Associates Companies, further to recording Share of Abyaar's Losses 5.8 Million KD during the year. On an overall, 14.3 Million KD Loss has been recorded during the year against Investment Exposure with Abyaar.

Aayan Group reported with its consolidated total assets and total liabilities of KD 297 Million and KD 191 Million respectively as at the end of year 2019.

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

In the context of the Company's debt settlement, it is worth noting that A'ayan has been keen, since the outbreak of the financial crisis, on liaising on an ongoing basis with creditors, thus strengthening the creditors' support of the Company ever since, with A'ayan continuing its endeavors to deal with the entire debt pursuant to a final settlement of the outstanding debt amounting to KD 137 million. The proposal is being studied and the majority creditors' final approvals are in process. The settlement is due to be presented before the Court of Cassation as a hearing was scheduled on 8 April 2020 and adjourned as a result of the Covid-19 pandemic followed by the government lockdown indefinitely.

# Sixth: Company Activities The Leasing Sector:

The leasing sector has achieved remarkable performance rates continuing its distinguished operational performance in 2019. A ayan Leasing Holding Company made more progress in its business, as the year 2019 witnessed excellent rise in operating revenues increasing by 9.5% recording KD 35.6 Million for 2019 compared to KD 32.5 Million for the year 2018.

The gross profit grew by 11%, reaching KD 8.69 Million for 2019 compared to KD 7.86 Million for 2018. The gross profit margin ratio hit 24% for 2019, an excellent percentage compared to previous years. The Company achieved an increase in total assets by 7%, reaching KD 71.3 Million for 2019, compared to KD 66.6 Million for the year 2018. Shareholders equities grew by 14%, reaching KD 39.5 Million for 2019, compared to KD 34.6 Million for 2018.

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.

In the course of diligent endeavors for developing its services and providing classy and enjoyable experience for operational leasing customers, A'ayan Leasing Holding Company has introduced and developed a range of modern online services that contribute in accelerating transactions conclusion and making things much easier for customers. In addition, The Company launched several marketing campaigns

throughout the year, that were tailor - made to attract new customer segments, in addition to focusing on presence at customers-gathering destinations.

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 favouring them with the highest level of luxury and quality service. A'ayan Kuwait Auto Company, subsidiary of A'ayan Leasing Holding Company, has won several major deals and tenders added to its diverse outstanding achievements in the Kuwaiti market. The Company has also managed to sell a large number of used cars through cooperation with various financing institutions.

A'ayan Leasing Holding Company continued its efforts to provide all possible support to its subsidiaries both inside and outside Kuwait to help them develop their business and set plans and to overcome any obstacles they may face. This approach resulted in rapid and remarkable development in the businesses of subsidiaries of A'ayan Leasing Holding Company where focus is given to the development and expansion of subsidiaries business in all aspects of car rental, whether for long, medium or short terms (daily and weekly).

A'ayan Leasing Holding Company is a fully owned and operational arm of Aayan Leasing & Investment Company in the automotive 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 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, Aayen Garage; the main center specialized in repairing and maintaining A'ayan's car fleet. Aayen 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 2019, the real estate investment market faced a decline in the rental values of the investment properties and the demand for residential units due to the high supply and low demand.

However, the real estate sector, fully owned Subsidiaries of A'ayan Leasing and Investment Company, managed to achieve Gain of KD 575K from the properties sold during 2019, in addition to achieving 16% increase in rental income from the remaining investment properties compared to 2018.

As for the vocational plots owned by the Company in Abu Fataira area, 2019 witnessed noticeable demand from real estate dealers due to stability of the property return rate and increase of investors' demand for rental units. This led to increasing rental value per square meter in this area.

Jahra Commercial Mall Project:

A'ayan Leasing & Investment Company directly owns 78.53% of Jahra Mall. Year 2019 recorded an increase of 12% in its Rental Revenue as compared to year 2018, due to the increase in the average annual tenants' occupancy rate, achieved through planned marketing for its leasing & well focused mall management.

Yaal Complex & Towers:

A'ayan Leasing & Investment Company owns 33.94% in Yaal Complex & Towers, through its fully owned subsidiary, Tawazun Holding Company. Aayan Real Estate Company Group being the Mall Management owns the remaining stake in Yaal Complex & Tower.

## **Assets Management Department**

The Assets Management Department "AMD" continued to manage and monitor the various asset classes of the Company's customers. At the front of the collective investment schemes, Awaed Real Estate Fund continued to serve its customers appropriately where the Fund's net assets value grew to 631 fils per unit as at the end of 2019 from 628 fils per unit at the end of last year. The Fund maintained the distribution of monthly returns to its shareholders in order to achieve the target goal of incorporation. The percentage of the annual return distributions in relation to the net unit value reached 5.5% as at the yearend. The AMD continued to focus on improving the Fund's asset performance and developing AMD performance as well to maintain the Fund's assets levels. The Fund has achieved positive performance compared to the sector, competing funds and the overall performance of the local real estate sector during the year 2019. During the year, the Fund was extended to additional five- year period ending in 2024.

AMD continued to follow the liquidation of the collective contractual investment schemes: During 2019, it obtained the approval of the Capital Markets Authority to liquidate both the Dubai Business Center portfolio and Al-Madina Portfolio, where A'ayan Leasing and Investment Company will act as the liquidator for these schemes over the coming period. Work is also in progress with regard to the liquidation of Makaseb Real Estate Fund and other real estate portfolios.

#### **Investment Sector:**

The investment sector constitutes a major part of A'ayan's gross assets. As the subsidiaries and associates, in which the Company owns strategic stakes, continue to play key role in the Company's performance in terms of profitability/loss, and cash flows.

The deterioration in the performance of Abyaar Real Estate Development Company, an associate of Aayan, has had a significant impact on the results of the year. The negative performance impact of Abyaar Company was reflected in the results of A'ayan Company where A'ayan's share of Abyaar losses amounted to approximately KD 5.8 Million during the year 2019. In addition, an impairment provision was taken against the investment in Abyaar Real Estate Development Company resulting in an additional loss of KD 8.5 million for A'ayan Leasing and Investment Company. The General Assembly of Abyaar Real Estate Development Company also approved the Company's withdrawal from trading on Kuwait Stock Exchange.

As for other key investments, A'ayan Real Estate Company, was able to achieve net profit of KD 2.1 million for the fiscal year ended 31 December 2019. The Board of Directors has proposed distribution of 5% bonus shares. Mubarrad Holding Company continued rendering positive results and achieving the goals set for the company. It was able to achieve net profit of KD 1.01 million. The Board of Directors submitted a proposal to the General Assembly to distribute dividends of 5 fils per share for the sixth consecutive year. Mashaer Holding Company, an associate of A'ayan, was able to achieve net profit of KD 1.6 Million, representing 9.2 fils per share. The Board of Directors also recommended the distribution of cash dividends of 5 fils per share.

## Seventh: Progress on Corporate Governance Standards and Rules

Aayan Leasing and Investment Company continued its compliance with regulatory frameworks and the application of effective and proactive internal controls. 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.

## **Eighth: Future Outlook**

Until the preparation of this report, and based on its post-preparation events in respect of Covid-19 pandemic and the consequent disruption of business in Kuwait and the world, and the imposition of a deadlock on economic life in general which was accompanied by sharp decline in oil prices, it must be taken into account that the magnitude of the implication of this crisis on the business of a company cannot be foreseen by the time of preparing the report, as well as the period for the dissolution of this crisis, which is also still not specified. All such events make it difficult to predict the extent to which and how this crisis will affect the financial position of the company and its ability to deal with its debts in the future.

#### **Ninth: Conclusion**

In conclusion, I would like to express my sincere thanks to: the Company's shareholders for their confidence and continued support, A'ayan customers for their trust in our services and products. I would also like to extend my thanks to all Company's staff for their outstanding performance and dedication to work.

I would extend my sincere thanks to the chairman and members of the Board of Directors for their continuous support for Company's Executive Management.

Mansour Hamad Al-Mubarak
Board Member and CEO

# **Sharia Supervisory Board Report**

Date 25th Jumada Akhar 1441 AH 19 February 2020 Shura Sharia Consultancy



In the Name of Allah, the All Compassionate, the Most Merciful

Dear Shareholders of A'ayan Leasing and Investment Company Peace & blessing of Allah be upon you

Based on our appointment and assignment to undertake external Sharia audit for A'ayan Leasing & Investment Company, we hereby present our Report as below:

#### First: Description of the Assignment:

We have examined and reviewed the principles applied and the contracts used for the transactions and products concluded by the Company during the fiscal year ended 31 December 2019 to express an opinion as to the extent of the Company's compliance with Sharia Rules and Principles as per the rulings, Fatwas, guidelines and decisions set by the Company's Sharia Supervisory Board.

#### Second: The Company's Responsibility

The Company's Management is responsible for compliance and ensuring compliance, in all its operations, with the Islamic Sharia Rules and Principles as per as per the rulings, Fatwas, decisions and guidelines set by the Company's Sharia Supervisory Board.

#### Third: External Sharia Auditor's Responsibility:

Our responsibility is to express an opinion on the Company's compliance with the rules and principles of Islamic Sharia, based on the Sharia audit activities we have undertaken. We conducted our Sharia audit in accordance with the Capital Markets Authority's instructions, the Corporate Governance instructions issued by the Accounting and Auditing of Islamic Financial Institutions (AAOIFI) and Fatwas and Decisions issued by the Company's Sharia Supervisory Board.

Our responsibility requires that we comply with the code of ethics, plan and perform the Sharia audit activities to obtain reasonable assurance that the Company is in compliance with the rules and provisions of Islamic Sharia.

#### Fourth: Description of the External Sharia Audit:

In performing our audit, we plan the activities of the Sharia audit, carried out the audit work and procedures by following the established professional methods. The performed Sharia audit procedures include examination of the Company's Sharia control system.

We have further examined the Company's operations and its transactions in securities and obtained the necessary clarifications and evidence to ensure that these transactions are in compliance with Fatwas, decisions and guidelines issued by the Company's Sharia Supervisory Board. Our audit included reviewing the Company's annual financial statements and the explanatory notes thereof.

We believe that the evidences we have obtained are sufficient and appropriate to provide basis for our Sharia Audit Opinion.

# Fifth: The areas in the Company responsible for conducting the transactions that have been audited and the work phases till completion:

We have conducted the external Sharia audit by means of several field visits to the Company, the latest was on 19/2/2020, for the responsible areas in the Company including the following:

- Asset Management Department
- Investment Department



# **Sharia Supervisory Board Report**

- Treasury Department
- Real Estate Department
- Finance Department
- Compliance Department
- Information Technology Department
- Human Resource Department

### We conducted our audit through the following phases:

- Survey of the audit areas
- Survey of contracts and transactions executed in each field
- Test-based audit
- Preparation of Sharia audit programs and forms
- Field Audit
- Recording notes obtained from the audit process
- Preparation of the External Sharia Audit Report and Recommendations (Draft Report) and Company's Comments thereon (if any).
- Ensuring that the Company's management is committed to take remedy action as per the findings of the Sharia audit (if any).

## Sixth: Our Opinion

In our opinion, the contracts and transactions concluded by the Company during the fiscal year ended 31 December 2019 were carried out in accordance with the principles and provisions of Islamic Sharia as set forth by the Company's Sharia Supervisory Board

Allah, the almighty, is the best guardian

Approval of the Sharia Supervisory Board eminence members						
Sheikh Prof. Sayed Mohammad A. Al- Tabtabae,	Sheikh Prof. Ahmad H. Al Kurdi,	Sheikh Prof. Nayif Al Hajaj Al Ajmi,				
Chairman of Sharia Supervisory Board	Member of Sharia Supervisory Board	Member of Sharia Supervisory Board				

#### Introduction:

Over the past years, the 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, control and accountability and ensuring sound managerial organization.

Many criteria and elements have been developed and adopted to ensure that all factors are evaluated in order to achieve sustainability, transparency, confidentiality, accountability and justice. These constitute the main pillars in all of our financial and business transactions and practices. They also regulate the relationship between the Company and its shareholders, its related parties and its 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 approach in Management is derived from the provisions of the Companies Law and the principles of "Corporate Governance" rules stipulated in 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, 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's board of directors to qualify them 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 tenor 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 composition of the board, the Company has taken into account the diversity of professional and scientific 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, thus 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, a majority of non-executive members and a sufficient number of independent members who are assigned tasks within the work of the board of directors and its committees to support the Company's various business in a way that helps in taking sound decisions in the best interest of the company as follows:

Board Member	Position	Educational and Practical Experience	Election/ Appointment Date
Mr. Fahad Ali Mohammed Thunayan Al-Ghanim	Board Chairman	<ul> <li>Mr. Fahad Ali Mohammed Thunayan Al-Ghanim has more than 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:</li> <li>Member of Kuwait Finance House Board of Director, Member of the Audit &amp; Compliance Committee at KFH since 2018;</li> <li>Chairman of the Investment Committee at KFH since 2018;</li> <li>Member of the Merger Committee at KFH since 2018;</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> <li>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.</li> </ul>	01/05/2017
Abdulaziz Nasser Al-Marzouq	Deputy Chairman	Abdulaziz Al-Marzouq has more than 20 years of professional experience in 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. Abdulaziz Al Marzouq holds Several positions in many companies, including:  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.	01/05/2017

Board Member	Position	Educational and Practical Experience	Election/ Appointment Date			
		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:				
		Chairman of A'ayan Real Estate Company.				
		Member of the Board of Directors of Mashaer Holding Company.				
		CEO of A'ayan Leasing & Investment Company.				
Mansour Hamad Al-Mubarak	Board Member & CEO	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.	01/05/2017			
Talal Mohammed Reda Behbehani	Independent Member					
Riyad Nasser Al-Bader	Non- executive member	Kuwait from 2003 until 2007.  Riyad Nasser 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 Finance House. Riyad Al-Bader holds a Higher Diploma in Banking Sciences from the Institute of Banking Studies in Kuwait	01/05/2017			

Board Member	Position	Educational and Practical Experience	Election/ Appointment Date
Nasser Ibrahim Boresli	Non Executive member	Boresli has more than 16 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 Senior Executive Manager, Commercial Credit Sector. Mr. Boresli graduated from University of San Bernardino, California, USA having BA in Management - with focus on public administration.	01/05/2017
Khaled Bader Al-Roumi	Non Executive member	Al-Roumi has more than 30 years of professional experience in various investment and commercial fields. He held many leading positions and served as a member of the Board of Directors of Al Madar Finance Company. He also held the position of the General Manager of Mayadeen National Company. Al-Roumi has Bachelor's Degree in Management - International Trade from Chapman College Orange California in the United States of America.	01/05/2017

## • The Board Secretary

Board Member	Position	Educational and Practical Experience	Election/ Appointment Date
Abdullah Mohammad Al-Shatti	Board Secretary	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 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 Deputy CEO for Investment. 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 Mubarad 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).	01/05/2017

#### 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 the unpunctuality in attending the board meetings. The board meetings for the fiscal year ended 31December 2019 were as follows:

Board Member	Meeting (1) 17/02/2019	Meeting (2) 29/05/2019	Meeting (3) 07/08/2019	Meeting (4) 31/10/2019	Meeting (5) 15/12/2019	Meeting (6) 26/12/2019	No. of Meetings
<b>Fahad A. Al-Ghanim</b> Board Chairman	<b>√</b>	<b>√</b>	<b>√</b>	<b>√</b>	<b>√</b>	<b>√</b>	6
<b>Abdulaziz N. Al-Marzouq</b> Deputy Chairman	$\checkmark$	apologized	$\checkmark$	$\checkmark$	$\checkmark$	$\checkmark$	5
Mansour H. Al-Mubarak Member of the Board	<b>√</b>	<b>√</b>	<b>√</b>	<b>√</b>	<b>√</b>	<b>√</b>	6
<b>Talal M. R. Behbehani</b> Member of the Board	$\checkmark$	$\checkmark$	$\checkmark$	<b>√</b>	<b>√</b>	$\checkmark$	6
<b>Khaled Bader Al-Roumi</b> Member of the Board	$\checkmark$	apologized	$\checkmark$	apologized	<b>√</b>	apologized	3
<b>Riyad N. Al-Bader</b> Member of the Board	<b>√</b>	<b>√</b>	<b>√</b>	<b>√</b>	<b>√</b>	<b>√</b>	6
Nasser I. Borousli Member of the Board	<b>√</b>	$\checkmark$	$\checkmark$	$\checkmark$	$\checkmark$	<b>√</b>	6

#### 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 its 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: The implementation of the strategy and the annual plan through the policies, regulations and charters approved by the Board, the preparation of periodic financial and non-financial reports on the progress made in 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

- · Monitor the performance of the Company's various sectors and the key updates periodically.
- Review and approve the Company's department's policies and procedures regularly and follow up compliance thereof.
- Ensuring that the Company complies with the instructions issued by the regulatory bodies and discussing with the Executive Management about the violations imposed by the supervisory authorities for remedy;
- Approving the Company's annual action plan;
- Discussing and approving the financial statements of the Company on set times;
- Follow up performance of the various Board committees to decide on the issues being discussed on regular basis;
- Discussing the latest developments in the process of restructuring the financial obligations of the Company 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 the approved regulations and rules 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 outcomes of their work 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 work 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 ensuring fairness and transparency of the financial reports.
- 2. Raise recommendation to the Board of Directors on the appointment and reappointment of external auditors, change or fix their fees. When recommending appointment, consideration shall be given to ensure auditors' independence and reviewing their engagement letters.
- 3. Follow up the external auditors work and ensure that they do not provide services to the company other than the services mandated by the audit profession.
- 4. Study external auditors' observations on the company's financial statements and follow up actions taken in this regard.
- 5. Study the accounting policies used and express opinion and recommendation to the Board of Directors.
- 6. Evaluate the adequacy of the internal control systems applied in the company and prepare a report that demonstrates the Committee's opinion and recommendations in this regard.
- 7. Perform 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. Recommend the appointment of the chief internal auditor, his transfer, removal, and evaluation of his performance and the performance of the internal audit department.
- 9. Review and approve the audit plans proposed by the chief internal auditor, and make observations thereon.
- 10. Review the findings of the internal audit reports, and ensure that the necessary corrective actions have been taken regarding the observations in the reports.
- 11. Review the findings in the regulatory authorities reports and ensure that the necessary measures have been taken in this regard.
- 12. Ensure that the Company complies with the relevant laws, policies, regulations and instructions.

#### Meetings of the Audit Committee during the Year ended 31 December 2019

#### The Committee held 5 meetings during 2019 as follows:

Members of the Committee formed on 1/5/2017	Meeting No.	1	2	3	4	5
	Meeting date	17/02/2019	09/05/2019	07/08/2019	31/10/2019	20/12/2019
Abdulaziz N. Al-Marzouq	Chairman of the Committee	<b>√</b>	apologized	<b>√</b>	<b>√</b>	✓
Riyad N. Al-Bader	Member	$\checkmark$	$\checkmark$	$\checkmark$	$\checkmark$	<b>√</b>
Talal Behbehani	Member	<b>√</b>	<b>√</b>	<b>√</b>	<b>√</b>	<b>√</b>

#### Audit Committee Key Achievements for the Year ended 31 December 2019

- Discussing internal audit reports periodically and giving recommendations for resolving issues raised in the reports.
- Discussing internal control review report, and giving recommendations for resolving issues raised in the reports.
- Discussing the Internal Audit Department Performance Review And Assessment Report, and giving 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 become 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 ensuring that the Company does not exceed this level of risk 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 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 Audit Committee that may affect the Company's risk management.

#### Meetings of the Risk Committee during the Year ended 31 December 2019

#### The Committee held 5 meetings during 2019 as follows:

	Meeting No.	1	2	3	4	5
Members of the Committee formed on 1/5/2017	Meeting date	17/12/2019	09/05/2019	31/10/2019	12/12/2019	26/12/2019
Talal Behbehani	Chairman of the Committee	$\checkmark$	$\checkmark$	$\checkmark$	$\checkmark$	$\checkmark$
Riyad N. Al-Bader	Member	$\checkmark$	$\checkmark$	$\checkmark$	$\checkmark$	$\checkmark$
Nasser Borousli	Member	<b>√</b>	<b>√</b>	<b>√</b>	<b>√</b>	<b>√</b>

#### Risk Committee Key Achievements for the Year ended 31 December 2019

- Discussing the risks to which the Company is 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 Nomination and Remuneration Committee**

- Recommendation to accept the nomination and re-nomination of the members of the Board of Directors and the executive management.
- 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.
- Attract applications for those wishing to occupy executive positions, as needed, and study and review these applications.
- Determine 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.
- Setting job descriptions for Executive Board members, non-executive members, and independent members.
- Ensuring that the independence status of the independent board member is not impaired.
- 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 for approval. That report should be read by the Chairman of the Board of Directors as per the approved format.
- Meetings of the Nomination and Remuneration Committee during the Year ended 31 December 2019

The Committee held one meeting during 2019 as follows:

Marshans of the Committee formed on 1/5/2017	Meeting No.	1
Members of the Committee formed on 1/5/2017	Meeting date	17/2/2019
Abdulaziz N. Al-Marzouq,	Chairman of the Committee	✓
Mansour Al-Mubarak	Member	<b>√</b>
Talal Behbehani	Member	<b>√</b>

#### Nomination and Remuneration Committee Key Achievements for the Year ended 31 December 2019

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 Company has linked the Remunerations Policy with its performance in general and the specific performance of the company's departments and associated risks. In accordance with the regulatory requirements, the Company is committed to annually 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 is to be read by the chairman of the board of directors in the annual general meeting assembly.

The above committees perform their roles in accordance with the approved charters and regulations that clearly define their duration, 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 recommendations related to 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 05/01/2017 with duration matching the Board of Directors tenure (i.e. three years). The Committee is composed of three members and holds periodic meetings; minimum one meeting during the fiscal 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 2019:

Members of A'ayan Board of Directors have not received any financial rewards for 2019

Members of the Board of Directors have not received any remunerations or benefits directly or indirectly for 2019

#### • 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 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

			Direct Remuneration			
Categories	No.	Fixed Benefits/ 3		Variable benefits	Total	Indirect Remuneration /5
		Basic Salaries	Fixed allowances	/4 Performance Bonus		Remaneration 70
Senior Executive Management/ 1	5	300582	49100	202062	551744	44000
Executive Management for Financial and Control Positions/2	3	76870	14700	12892	104462	0
Total	8	377452	63800	214954	656206	44000

<sup>\*</sup>For more details on the remuneration report, please refer to the Investors Relations Unit

- 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: 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 Administrative Affairs Policy at the Company.
- 4) Variable Benefits: Includes 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 of Medical Insurance for the employee and his / her family according to the job grade in line with the approved Regulations.

#### Rule IV

#### Ensuring the integrity of financial reporting

The Executive Management Commitment to the Integrity of the Financial Reports:

#### Board of Directors Declaration on the Integrity of the Financial Statements:

The Board of Directors declare that we have reviewed the financial statements of A'ayan Leasing and Investment Company for the fiscal year ended 31 December 2019.

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 ensure that the presented information are not misleading under the circumstances in which such statements were 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 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 of 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 for the preparation of the financial statements is under our supervision to provide reasonable assurance on the reliability of the financial reports and preparation of 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 on 31 December 2019, covered in this report based on that evaluation

We have disclosed in this report any changes to the Company's internal control systems and to the financial reporting process during the last quarter - fourth quarter of the year in the case of the annual report - 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 and the Board Audit Committee about all significant deficiencies and weaknesses in the design or implementation of 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.

Fahad Ali Mohammed Thunayan Al-Ghanim Chairman, on behalf of Board of Directors

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

I, Mansour Hamad Al Mubarak, in my capacity as the Company's Chief Executive Officer, declare that I have reviewed the financial statements of A'ayan Leasing and Investment Company for the fiscal year ended 31 December 2019.

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 ensure that the presented information are not misleading under the circumstances in which such statements were 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 and for the reporting period.

I 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 of 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 for the preparation of the financial statements is under our supervision to provide reasonable assurance on the reliability of the financial reports and preparation of 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 on 31 December 2019, covered in this report based on that evaluation.

We have disclosed in this report any changes to the Company's internal control systems and to the financial reporting process during the last quarter - fourth quarter of the year in the case of the annual report - 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 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 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 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.

Mansour Hamad Al-Mubarak
Board Member and CEO

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

I, Muhyideen Seyed Abu Thahir Solukku, in my capacity as the Company's Chief Financial Officer, declare that I have reviewed the financial statements of A'ayan Leasing and Investment Company for the fiscal year ended 31 December 2019.

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 ensure that the presented information are not misleading under the circumstances in which such statements were 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 and for the reporting period.

I 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 of 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 for the preparation of the financial statements is under our supervision to provide reasonable assurance on the reliability of the financial reports and preparation of 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 on 31 December 2019, covered in this report based on that evaluation.

We have disclosed in this report any changes to the Company's internal control systems and to the financial reporting process during the last quarter - fourth quarter of the year in the case of the annual report - 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 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 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 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.

Prof

Muhyideen Seyed Abu Thahir Solukku Chief Financial Officer

#### **Board Audit Committee**

A'ayan Company Board of Directors believes that having an independent audit committee with qualified human and technical cadres is one of the key features illustrating the implementation of sound governance rules, as this committee works on deepening the culture of compliance across the company by ensuring the integrity of the company's financial report, the sufficiency and effectiveness of the internal control systems applied in the company. The Audit Committee was formed on 05/01/2017 with duration matching the period of the board of directors (i.e. three years) composing of three members. The Committee holds at least four meetings on a quarterly basis during the fiscal year.

#### Ensuring the integrity of the financial reports:

The integrity of the company's financial statements and related reports is one of the key pillars and important indicators of transparency and credibility in the company's presentation of its financial position, that result in increasing investors' confidence in data and information, and allowing them to pursuit their rights. For this goal, the Company has adopted mechanisms and frameworks that enhance the integrity of the Financial statements and related reports by establishing clear and specific mechanisms and systems in accordance with international accounting standards and subject to the supervision of the Company's Audit Committee and review by an independent external auditor appointed by the General Assembly of Shareholders. In addition, to enhance accountability, the executive management provides undertakings on the integrity of financial reports prepared to the Board of Directors, which in turn provides the necessary declarations to the shareholders' on the integrity of the financial statements and related reports.

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, 2019, there was no conflict between the recommendations of the Company's Audit Committee and the decisions issued by the Board of Directors.

#### **External Auditor's Independence & Neutrality**

The Company has complied to the requirement of appointing an auditor registered and approved by the Capital Market 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 due to the high standard of their professionalism and efficiency recognized globally, regionally and locally in this field.

#### Rule V

#### Developing sound risk management and internal control systems

#### Risk Management

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 while the unit exercises its functions and 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.

#### Risk Committee:

To ensure the ability to understand and analyze the nature and volume of 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 the methods to address these risks, the Board of Directors has approved the formation of the board risk committee to assist the board in carrying out this key role. The Risk Committee was formed on 05/01/2017 with three members and for a term matching the tenure of the Board of Directors (i.e. three years) to hold 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 its main committees. The efficiency of controls is reviewed from time to time within the Company's relevant departments by performing regular reviewand 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 recommendation 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 of the Company from all financial, accounting and administrative aspects, as well as monitoring the implications of risk factors facing the Company and the available systems to determine the efficiency of the daily operations 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 one of the cornerstones of undertaking 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 is derived from our view and conviction that this pillar is one of the key fundamentals that positively affect the interests of all related parties of A'ayan, particularly, the shareholders without any conflict of interest and at a high 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 involved and to handle transactions between the Company and its stakeholders as well as cases of conflict between the Company's customers and to ensure informing the General Assembly of any transactions and contracts concluded with related parties.

#### **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 justice.

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.

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

The Company has, amongst its records, a special record that identifies insiders with a register of trading disclosures on the shares of the Company listed in the Kuwait Stock Exchange for members of the Board of Directors and executive management and their families of the first degree as well as their dealings with the Company in a manner that reflects the reality of the relationship and interests with the Company in compliance with the instructions of the Capital Markets Authority regulating these issues. This record, at the Investors Relations Unit, is made available for all the shareholders of the company for review 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 comprehensive 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. During 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 all of them. 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 associated with the company's business through the Investors Relations Unit.

#### Shareholding Records

The Company's shareholders Register is kept at the Clearing Agency, with the names of shareholders, their nationalities and the number of shares owned by each of them for ensuring continuous follow-up of shareholders' information. For this purpose, the Company Board has approved Shareholders' Rights Protection Policy.

#### Encouraging shareholders to participate at the General Assembly meetings

The Company cares for encouraging shareholders to undertake 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 encourage 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 approved, within Company's matrix of policies and procedures, 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 conditions are applied with all stakeholders without any preferential treatment and a compensation mechanism governed by regulations and protected by contracts. It also indicated 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 the Company's various activities, develop communication channels marked by openness and transparency mainly through the Company's website and deal with the stakeholders in directly and clearly manner on basis of honesty and respect, adopt mechanisms that enable stakeholders to raise the board of directors any improper practices and provide them with due protection in accordance with the whistle blowing and protection policy approved by the Board of Directors in a manner that 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 training of the board members and executive management 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, 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 adopts 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 the confidence of shareholders and stakeholders 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, demonstrating high professional conduct and improving performance. It also helps them to demonstrate a more sense of responsibility and raise the level of professional performance, with the continuous development of the reporting systems in place in the Company 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 methodology 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 that is attributable to companies' belief in a number of lofty human values and standards, such as solidarity, sense of responsibility towards everyone in relation with the company, whether this is a shareholder, employee, member of the community, stakeholders, or any related party.

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 realizing the balance between the company's goals and the general 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 more positive effect will be reflected on development, prosperity and evolution of the Company, thus increasing its profitability and good reputation.

This is reflected by the company's 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 by working to improve the living, social and economic conditions of the workforce and their families, in addition to the society as a whole and contribute to reducing levels of unemployment in society and optimal use of the available resources. The Company provides full support for national employment and encourages young people to join work, provides care and full support to employees by offering them training programs in the Company's lines of business to enhance staff skills to positively affect the community and the Company directly and indirectly.

Within the framework of the Company's endeavors in securing health care for its staff, it provides medical insurance advantages to its employees and their families according to their job grades, as well as sports programs for employees to support their physical health, raise the spirit of intimacy and interdependence and develop constructive relationships between employees so as to bring about the desired effect on society in general and the Company employees in particular.

# A'AYAN LEASING & INVESTMENT CO. K.S.C.P AND ITS SUBSIDIARIES Consolidated Financial Statements for the year ending 2019



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# 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

#### **Opinior**

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 2019, 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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted for use by the State of Kuwait.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 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' 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 period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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



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# 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)**

#### Impairment of trading properties

Trading properties represent a significant part of the total assets of the Group with a carrying value of KD 14,381,812 (2018: KD 14,382,872) at the reporting date.

Trading properties are stated at the lower of cost and net realisable value (NRV). The net realisable value of trading properties have been assessed by external real estate appraisers. The determination of the net realisable value of trading properties is dependent on key inputs, such as rental value, maintenance status, market knowledge and historical transactions, which, although not directly observable, but are corroborated by observable market data. The disclosures relating to the inputs are relevant, given the estimation uncertainty involved in these valuations. Given the size and complexity of the determination of net realisable value of trading properties, and the importance of the disclosures relating to the inputs used in the valuation, we have considered this as a key audit matter.

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 testing the valuations on a sample basis. Further, we have considered the objectivity, independence and expertise of the external real estate appraisers. We also assessed the appropriateness of the disclosures relating to the trading properties of the Group in Note 15 to the consolidated financial statements.

#### Impairment of investment in associates

The Group exercises significant influence over certain entities assessed to be associates amounting to KD 29,714,607 (2018: KD 44,008,269) as at the reporting date, including listed associates with a carrying value of KD 5,720,433 (2018: KD 19,542,313).

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 provisions. Management determines at the end of each reporting period the existence of any objective evidence through which the Group's investment in associates may be impaired. If there is an indication that the Group's interests in an associate might be impaired, the management compares the entire carrying amount of the investment in associate to its recoverable amount.



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# 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)**

#### Impairment of investment in associates(continued)

As at 31 December 2019, management identified an impairment trigger for a certain listed associate and the carrying amount of the investee was determined to be higher than its recoverable amount. As a result, management has recognised an impairment loss of KD 8,493,678 in the current year.

Due to the level of judgement required in determining whether there is an indication that carrying value of an associate may be impaired and the key assumptions used to determine the recoverable amount if such indication exists, we identified this area as a key audit matter.

As part of our audit procedures, we evaluated management's assessment whether objective evidence of impairment exists in relation to the Group's interest in associates and the qualitative and quantitative factors used such as the investee's financial performance including dividends, and market, economic or legal environment in which the associate operates. Whenever there is an indication that the carrying value of an associate may be impaired, we challenged the significant assumptions and valuation methods used by the management in assessing impairment and the reasonableness and appropriateness of those assumptions and methods in the circumstances. We have tested source data used in these valuations, to the extent possible with the relevant supporting documents, independent sources and externally available market data to evaluate the data's relevance, competence and accuracy.

We also assessed the adequacy of the disclosures relating to the Group's investment in associates in Note 16 to the consolidated financial statements.

#### Fair valuation of investment properties

Investment properties represent a significant part of the total assets of the Group with a carrying value of KD 123,563,008 (2018: KD 140,655,853) at the reporting date.

The fair values of the Group's investment properties have been determined by external real estate appraisers. The determination of fair value of the investment properties is dependent on key inputs, such as rental value, maintenance status, market knowledge and historical transactions, which, although not directly observable, but are corroborated by observable market data. The disclosures relating to the inputs are relevant, given the estimation uncertainty involved in these valuations. Given the size and complexity of the valuation of investment properties, and the importance of the disclosures relating to the inputs used in such valuations, we have considered this as a key audit matter.



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# 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 valuation of investment properties (continued)

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. Further, we have considered the objectivity, independence and expertise of the external real estate appraisers. We also assessed the appropriateness of the disclosures relating to the investment properties of the Group in Note 17 to the consolidated financial statements.

#### Settlement of Islamic finance payables

At 31 December 2019, the Parent Company had significant debt exposure of KD 136,874,221 as disclosed in Note 26 of the consolidated financial statements. As stated in Note 26 therein, the Parent Company has negotiated a final settlement plan ("proposed plan") of its Islamic finance payables with its lenders and is currently undergoing court proceedings for the approval of the proposed plan. As the ultimate disposition of the asserted proceedings cannot be determined with a high degree of certainty, and given the judgement involved relating to the debt settlement, we determined this as a key audit matter.

Our audit procedures, included among others, assessing the Group's process for identifying and monitoring the developments relating to the proposed debt settlement plan. Further, we assessed the progress of court proceedings, including reviewing the Group's public announcements and the underlying basis for the announcements made.

We also held regular discussions with the management, the Group's in-house legal counsel to update our understanding of the status of court proceedings, made inquiries to the external legal counsel, evaluated the external legal opinions obtained and compared these with management's information and legal position. We have also assessed the adequacy of the disclosures relating to the debt settlement in the consolidated financial statements.

#### Other Information included in the Group's Annual Report 2019

Management is responsible for the other information. Other information consists of the information included in the Group's 2019 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.



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# 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)

#### Other Information included in the Group's Annual Report 2019 (continued)

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.

#### 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.



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# 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)

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

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

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

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



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# 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)

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

#### Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, as amended and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2019 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 2019 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

18 February 2020 Kuwait

		2019	2018
	Notes	KD	KD
INCOME			
Net Islamic finance income		46,517	112,025
Net income from leasing operations	6	9,787,751	8,852,462
Real estate income	7	7,329,340	16,731,625
Income from investments and saving deposits	8	552,936	373,552
Share of results of associates	16	(3,906,638)	65,335
Advisory and management fees		360,500	760,687
Other income	9	517,728	2,363,387
		14,688,134	29,259,073
EXPENSES			
Finance costs		(7,225,763)	(7,232,163)
Net impairment losses, expected credit losses and provisions	10	(12,714,190)	(6,965,647)
Staff costs		(5,207,115)	(5,094,187)
Depreciation	19	(579,730)	(269,131)
Net foreign exchange differences		162,339	(136,857)
Other expenses	11	(2,169,506)	(2,541,750)
		(27,733,965)	(22,239,735)
(LOSS) PROFIT BEFORE TAX		(13,045,831)	7,019,338
Nisting all all and Command Tau ("NII CT")			(1.426)
National Labour Support Tax ("NLST") Zakat		-	(1,426)
		-	
Contribution to Kuwait Foundation for Advancement of Sciences ("KFAS")		(240,400)	(525,001)
Taxation from subsidiaries		(248,498)	(525,081)
(LOSS) PROFIT FOR THE YEAR		(13,294,329)	6,492,831
Attributable to:			
Equityholders of the Parent Company		(14,615,445)	3,029,336
Non-controlling interests		1,321,116	3,463,495
		(13,294,329)	6,492,831
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE attributable to equity holders of the Parent Company	12	(18.23) fils	3.78 fils
equity notuers of the Farent Company			

Notes	KD (12 204 220)	KD
	(12 204 220)	
	(12 204 220)	
	(13,294,329)	6,492,831
	(287,185)	(232,772)
	318,835	42,281
	31,650	(190,491)
	(114,401)	(12,904)
19	591,000	(16,000)
	476,599	(28,904)
	508,249	(219,395)
	(12,786,080)	6,273,436
	(14,222,589)	2,851,666
	1,436,509	3,421,770
	(12,786,080)	6,273,436
	19	318,835 ————————————————————————————————————

		2019	2018
	Notes	KD	KD
ASSETS			
Cash and short-term deposits	13	51,385,649	26,302,587
Islamic finance receivables	14	23,243	95,096
Trading properties	15	14,381,812	14,382,872
Financial assets at fair value through profit or loss		2,170,384	2,429,959
Financial assets at fair value through other comprehensive income		282,425	396,826
Investment in associates	16	29,714,607	44,008,269
Investment properties	17	123,563,008	140,655,853
Other assets	18	11,043,744	13,094,534
Property and equipment	19	60,138,500	59,209,142
Leasehold property	20	4,112,041	5,443,802
Goodwill	21	91,005	1,036,879
TOTAL ASSETS		<b>296,906,41</b> 8	307,055,819
EQUITY AND LIABILITIES			
Equity			
Share capital	22	81,403,882	81,403,882
General reserve	23	8,661,656	8,661,656
Treasury shares	25	(11,339,726)	(11,339,726)
Treasury shares reserve	25	2,678,070	2,678,070
Asset revaluation surplus	24	7,918,469	7,327,469
Foreign currency translation reserve		(119,877)	(276,567
Fair value reserve		(55,791)	11,858
Effect of changes in reserve of associates		(555,683)	(268,498
Accumulated losses		(20,175,934)	(6,359,048
Equity attributable to equity holders of the Parent Company		68,415,066	81,839,096
Non-controlling interests	5	37,304,230	38,946,368
<u> </u>			
Total equity		105,719,296	120,785,464
• •			
Liabilities			
Islamic finance payables	26	151,961,502	153,649,729
Other liabilities	27	39,225,620	32,620,626
Total liabilities		191,187,122	186,270,355
TOTAL EQUITY AND LIABILITIES		296,906,418	307.055.910
TOTAL EQUIT I AND LIADILITIES		290,900,410	307,055,819

Fahad Ali Mohammed Thunayan Al-Ghanim

Chairman

Mansour Hamad Al-Mubarak

Chief Executive Officer



		2019	2018
	Notes	KD	KD
OPERATING ACTIVITIES			
(Loss) profit before tax and directors' remuneration		(13,045,831)	7,019,338
Non-cash adjustments to reconcile profit before tax to net cash flows:		(13,043,831)	7,019,530
Depreciation and amortisation		12,030,451	10,676,285
Net impairment losses, expected credit losses and provisions	10	12,714,190	6,965,647
Gain on disposal of investment properties	7	(1,181,479)	(215,226
Valuation gains from investment properties	17	(28,581)	(10,157,642
Gain on disposal of property and equipment	6	(2,243,894)	(1,309,441
Income from investments and saving deposits	8	(552,936)	(373,552
Share of results of associates	16	3,906,638	(65,335
Net foreign exchange differences		(162,339)	136,85
Provision for employees end of service benefits		789,142	549,72
Finance costs		7,225,763	7,232,16
		19,451,124	20,458,81
Changes in operating assets and liabilities:			
Islamic finance receivables		227,499	1,168,669
Trading properties		-	1,331,93
Other assets		(1,623,092)	1,840,92
Other liabilities Other liabilities		(2,446,248)	(1,807,653
Cash flows from operations		15,609,283	22,992,694
Employees end of service benefits paid		(229,905)	(546,398
Taxes paid		(329,157)	(173,487
Net cash flows from operating activities		15,050,221	22 272 000
Net cash flows from operating activities		13,030,221	22,272,809
INVESTING ACTIVITIES			
Proceeds from sale/redemption of investment in associates		615,299	
Proceeds from sale of financial assets at fair value through profit and loss		013,233	124,927
Purchase of investment properties	17	(1,492,907)	(4,451,884
Proceeds from disposal of investment properties	17	20,506,000	4,463,61
Income received from investment and savings deposits	17	774,509	279,925
Dividend received		152,118	278,703
Dividend received from associates		675,764	2,339,28
Purchase of property and equipment	19	(18,860,699)	(19,363,734
Proceeds from disposal of property and equipment		15,200,244	10,811,460
Movement in restricted bank balance		(31,329)	154
Net cash flows from (used in) investing activities		17,538,999	(5,517,553
FINANCING ACTIVITIES			
Finance costs paid		(3,963,968)	(5,042,369
Net repayment of Islamic finance payables		-	(10,315,038
Payment of principal portion of lease liabilities		(1,293,431)	/400 474
Dividends paid to non-controlling interests		(1,445,207)	(489,476
Net movement in non-controlling interests		(834,881)	(3,295,753
Net cash flows used in financing activities		(7,537,487)	(19,142,636
Net cash flows used in finalicing activities		(7,337,487)	(19,142,030
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		25,051,733	(2,387,380
Cash and cash equivalents at 1 January		26,282,209	28,669,589
Casir and Casir equivalents at 1 January			20,007,30
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	13	51,333,942	26,282,209
	.5		20,202,20
Non-cash items excluded from the statement of cash flows:			
Transitional adjustment to lease liabilities on adoption of IFRS 16		5,140,002	
Transitional adjustment to property and equipment on adoption of IFRS 16		(5,140,002)	
Transitional adjustment to retained earnings on adoption of IFRS 9		-	133,755
Transitional adjustment to accounts receivable and other assets on adoption			
			133,755

				Attributab	le to equity h	olders of the P	arent Compa	ny				
	Share capital	General reserve	Treasury shares	Treasury shares reserve	Asset revaluation surplus	Foreign currency translation reserve	Fair value reserve	Effect of changes in reserve of associates	Accumulated losses	Subtotal	Non- controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
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 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)
At 31 December 2019	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
As at 1 January 2018 as previously reported	81,403,882	8,661,656	(11,339,726)	2,678,070	7,326,858	(264,644)	44,261	(35,726)	(10,305,466)	78,169,165	39,268,102	117,437,267
Impact of adopting IFRS 9	-	-	-	-	-	-	(34,282)	(64,535)	83,961	(14,856)	58,759	43,903
Restated opening balance under IFRS 9	81,403,882	8,661,656	(11,339,726)	2,678,070	7,326,858	(264,644)	9,979	(100,261)	(10,221,505)	78,154,309	39,326,861	117,481,170
Profit for the year	-	-	-	-	-	-	-	-	3,029,336	3,029,336	3,463,495	6,492,831
Other comprehensive income (loss) for the year	-	-	-	-	611	(11,923)	1,879	(168,237)	-	(177,670)	(41,725)	(219,395
Total comprehensive income (loss) for the year	-				611	(11,923)	1,879	(168,237)	3,029,336	2,851,666	3,421,770	6,273,436
Dividends paid to non- controlling interests	-	-	-	-	-	-	-	-	-	-	(489,476)	(489,476
Change in ownership interest in subsidiaries	-	-	-	-	-	-	-	-	833,121	833,121	(1,815,251)	(982,130
Other movements in non- controlling interests	-	-	-	-	-	-	-	-	-	-	(1,497,536)	(1,497,536
At 31 December 2018	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

# STATEMENTS As at and for the year ended 31 December 2019

As at and for the year ended 31 December 2019

#### 1 COPORATE 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 2019 was authorised for issue in accordance with a resolution of the Board of Directors on 17 February 2020, 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 31.

#### 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 intermediatory 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 Sharie'a as approved by the Parent Company's Fatwa and Sharie'a Supervisory Board.

#### 3 BASIS OF PREPRATION 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 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 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 34.

As at and for the year ended 31 December 2019

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

#### 3.1 BASIS OF PREPARATION (continued)

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications were made in order to more appropriately present the items of consolidated statement of profit or loss. Such reclassifications do not affect previously reported total assets, total equity, total liabilities and profit reported in the prior year.

#### 3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

#### New and amended standards and interpretations

The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

#### IFRS 16 - Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right of use of assets were both recorded at the present value of future lease payments, thus no impact was recorded on the opening retained earnings. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption IFRS 16 as at 1 January 2019 is, as follows:

	KD
ASSETS	
Right-of-use assets (included within property and equipment)	5,140,002
LIA DU ITIES	
LIABILITIES	
Lease liabilities (included under other liabilities)	5,140,002

#### a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various properties. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the consolidated statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under accounts receivable and prepayments and accounts payable and accruals, respectively.

The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

As at and for the year ended 31 December 2019

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

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

#### IFRS 16 - Leases (continued)

#### a) Nature of the effect of adoption of IFRS 16 (continued)

#### ► Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 was applied to these leases from 1 January 2019.

#### Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 January 2019:

- Right-of-use assets of KD 5,140,002 were recognised and presented within 'property and equipment' in the consolidated statement of financial position.
- Lease liabilities of KD 5,140,002 were recognised and presented within 'other liabilities' in the consolidated statement of financial position.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	KD
Operating lease commitments as at 31 December 2018	5,705,336
Weighted average incremental borrowing rate as at 1 January 2019	5%
Discounted operating lease commitments at 1 January 2019	5,459,607
:Less	
Commitments relating to short-term leases	(139,605)
Commitments relating to leases of low-value assets	(180,000)
Lease liabilities as at 1 January 2019	5,140,002

As at and for the year ended 31 December 2019

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

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

#### IFRS 16 - Leases (continued)

#### b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

#### ► 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 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. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

#### ► 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 a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if 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 in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

#### ► Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of property and equipment (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). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below €5,000 (KD 1,500)). 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.

#### ▶ Significant judgement in determining the lease term of contracts with renewal options

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 the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. 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 (e.g., a change in business strategy).

As at and for the year ended 31 December 2019

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

#### 3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, '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 to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

#### 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

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.

As at and for the year ended 31 December 2019

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

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

#### 3.4.1 Basis of consolidation (continued)

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.

#### 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 profit or loss.

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

As at and for the year ended 31 December 2019

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

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

#### 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 statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. 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 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 profit of an associate' in the 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 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

The Group is the lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms.

#### 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.

As at and for the year ended 31 December 2019

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

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

#### 3.4.4 Revenue recognition (continued)

#### 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.

#### 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.

As at and for the year ended 31 December 2019

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

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

#### 3.4.9 Cash and cash equivalents

Cash and cash equivalents in the 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 and subsequent measurement

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.

#### il Financial assets

#### Initial recognition and initial measurement

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

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

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

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

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

#### Subsequent measurement

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

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

As at and for the year ended 31 December 2019

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

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

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

#### il Financial assets (continued)

#### 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 otherincome 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.

#### 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.

As at and for the year ended 31 December 2019

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

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

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

#### 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.

#### 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 provisions
Watch list	Irregular for a period of 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%

As at and for the year ended 31 December 2019

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

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

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

#### Impairment of financial assets (continued)

#### Impairment of credit facilities

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.

#### 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.

As at and for the year ended 31 December 2019

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

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

#### 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.

#### 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.

As at and for the year ended 31 December 2019

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

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

#### 3.4.14 Investment properties (continued)

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

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

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

Capital work-in-progress is stated at cost. Such cost includes the cost of replacing part of the property, 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, plant 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, plant and equipment. All other expenditure is recognised in the consolidated statement of profit or loss as the expense is incurred.

As at and for the year ended 31 December 2019

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

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

#### 3.4.16 Property and equipment (continued)

An item of property, plant 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

#### Policy applicable from 1 January 2019

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:

BuildingsLeasehold property4 years

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

#### ii) Lease liabilities

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

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

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

As at and for the year ended 31 December 2019

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

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

#### 3.4.17 Leases (continued)

Policy applicable from 1 January 2019 (continued)

#### Group as a lessee (continued)

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.

#### Policy applicable before 1 January 2019

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

#### Group as a lessee

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

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

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

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

#### Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the 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.

As at and for the year ended 31 December 2019

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

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

#### 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 expensecategories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

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

As at and for the year ended 31 December 2019

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

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

#### 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.

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.

As at and for the year ended 31 December 2019

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

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

#### 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.

#### 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.

#### 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 amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

#### 4.1. Significant judgments

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

#### Determining the lease term of contracts with renewal and termination options - Group as lessee

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

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

As at and for the year ended 31 December 2019

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

#### 4.1. Significant judgments (continued)

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

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.

#### 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.

As at and for the year ended 31 December 2019

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

#### 4.2 Estimates and assumptions (continued)

#### Impairment of leasehold property

The carrying amounts of the leasehold property 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 property 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.

#### 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 36.

#### 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.

As at and for the year ended 31 December 2019

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

#### 4.2 Estimates and assumptions (continued)

### Leases - Estimating the incremental borrowing rate

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

#### 5 GROUP INFORMATION

The consolidated financial statements of the Group include:

No man of commons.	Country of	% equity interest		Deinging Lockivities	
Name of company	incorporation	poration 2019		Principal activities	
Tawazun Holding Company K.S.C (Closed)	Kuwait	100%	100%	Holding company	
East Gate Real Estate Company S.P.C.	Kuwait	100%	100%	Real estate	
A'ayan Leasing Holding Company K.S.C. (Holding)	Kuwait	100%	100%	Leasing activities	
Mubarad Holding Company K.S.C.P. ("Mubarrad")	Kuwait	50.5%	50.5%	Trading and renting heavy vehicles	
A'ayan Real Estate Company K.S.C.P. ("AREC")	Kuwait	61.0%	59.1%	Real estate	
Jahraa Mall – JV	Kuwait	84%	84%	Real estate	
Anan Real Estate Financing Company K.S.C. (Closed) (subsidiary of AREC)	Kuwait	61.0%	59.1%	Real estate financing	
Takatuf Real Estate Company K.S.C (Closed) (subsidiary of Mubarrad)	Egypt	50.5%	50.5%	Real estate	
Yall Mall – JV	Kuwait	74.0%	73.0%	Real estate	

#### Material partly owned subsidiaries:

The Group has concluded that AREC and Mubarrad are the only subsidiaries with non-controlling interests that are 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:

	2019	2018
	KD	KD
A'ayan Real Estate Company K.S.C.P.	39%	40.9%
Mubarrad Holding Company K.S.C.P.	49.5%	49.5%

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

	2019	2018
	KD	KD
A'ayan Real Estate Company K.S.C.P.	26,587,585	28,269,417
Mubarrad Holding Company K.S.C.P.	10,236,410	9,943,982

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

	2019	2018
	KD	KD
A'ayan Real Estate Company K.S.C.P.	866,257	<b>2,</b> 537 <b>,279</b>
Mubarrad Holding Company K.S.C.P.	483,924	852,421

As at and for the year ended 31 December 2019

### 5 GROUP INFORMATION (continued)

### Material partly owned subsidiaries (continued)

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

	20	2019		2018	
	AREC	Mubarrad	AREC	Mubarrad	
	KD	KD	KD	KD	
Summarised statement of profit or loss					
Income	5,198,168	2,085,097	13,085,930	2,033,310	
Expenses	(2,866,775)	(1,076,885)	(3,432,541)	(353,499)	
Profit for the year	2,331,393	1,008,212	9,653,389	1,679,811	
Total comprehensive income for the year	2,218,945	1,340,380	9,649,275	1,909,334	

	2019		2	018
	AREC	Mubarrad	AREC	Mubarrad
	KD	KD	KD	KD
Summarised statement of financial position				
Total assets	111,624,303	24,988,721	114,560,140	25,038,513
Total liabilities	19,203,000	4,274,395	20,069,151	4,892,043
Total equity	92,421,303	20,714,326	94,490,989	20,146,470

	2019		2	018
	AREC	Mubarrad	AREC	Mubarrad
	KD	KD	KD	KD
Summarised cash flow information				
Operating	(3,371,517)	917,734	(330,851)	1,533,008
Investing	6,044,162	46,000	(3,180,868)	969,599
Financing	(2,151,921)	(1,628,355)	(450,864)	(900,409)
Net increase (decrease) in cash and cash equivalents	520,724	(664,621)	(3,962,583)	1,602,198

As at and for the year ended 31 December 2019

### 6 NET INCOME FROM LEASING OPERATIONS

	2019	2018
	KD	KD
Operating lease rental income	18,705,764	18,551,410
Service, maintenance and other income	1,374,206	1,273,652
Gain on disposal of motor vehicles	2,243,894	1,309,441
	22,323,864	21,134,503
Less: Depreciation of motor vehicles (Note 19)	(9,161,750)	(9,075,393)
Less: Maintenance and other expenses	(3,374,363)	(3,206,648)
	9,787,751	8,852,462

### 7 REAL ESTATE INCOME

	2019	2018
	KD	KD
Revenue from sale of trading properties		850,000
Cost of sales - trading properties		(775,950)
Profit on trading properties (Note 15)		74,050
Profit on disposal of investment properties (Note 17)	1,181,479	215,226
Valuation gains from investment properties (Note 17)	28,581	10,157,642
Rental income from investment properties	7,019,736	7,364,823
Rental income from a leasehold property	3,459,010	3,105,516
Depreciation of right-of-use assets relating to leasehold property	(957,210)	-
Amortisation of a leasehold property (Note 20)	(1,331,761)	(1,331,761)
Real estate related expenses	(2,070,495)	(2,853,871)
	7,329,340	16,731,625

As at and for the year ended 31 December 2019

### 8 INCOME FROM INVESTMENTS AND SAVING DEPOSITS

	2019	2018
	KD	KD
Investment deposits and savings profits	774,509	279,925
Dividend income	152,118	278,703
Loss on disposal of investment in associates	(4,279)	-
Gain on sale of financial assets at FVTPL	-	77,923
Changes in fair value of financial assets at FVTPL	(369,412)	(262,999)
	552,936	373,552

### 9 OTHER INCOME

	2019	2018
	KD	KD
Gain on sale of other assets	-	1,419,454
Recoveries from insurance claims	-	450,000
Other income	517,728	493,933
	517,728	2,363,387

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

	2019	2018
	KD	KD
Reversal of provision for impairment of Islamic finance receivables (Note 14)	(155,646)	(133,512)
Impairment losses on other assets (Note 18)	2,438,508	1,808,610
ECL on trade receivables (Note 18)	820,269	3,817,271
Impairment of goodwill (Note 21)	945,874	-
Impairment losses on trading properties	1,060	-
Write off of an investment property (Note 17)	525,000	-
Impairment losses on property and equipment (Note 19)	7,303	1,139,811
Net impairment losses on investment in associates	8,193,379	85,337
[Reversal of]/allowance for provision for legal cases	(61,557)	248,130
	12,714,190	6,965,647

As at and for the year ended 31 December 2019

#### 11 OTHER EXPENSES

	2019	2018
	KD	KD
Premises expenses	492,031	771,514
Legal and professional fees	723,473	960,404
Marketing and advertising expenses	141,602	161,459
BOD remuneration of subsidiaires	115,457	99,000
Other miscellaneous expenses	696,943	549,373
	2,169,506	2,541,750

#### 12 EARNINGS PER SHARE (EPS)

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

	2019	2018
(Loss) profit attributable to the equity holders of the Parent Company (KD)	(14,615,445)	3,029,336
Weighted average number of shares outstanding during the year (shares)*	801,673,982	801,673,982
Basic and diluted (loss) EPS (fils)	(18.23)	3.78

<sup>\*</sup> 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 statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	2019	2018
	KD	KD
Cash at banks and on hand	6,480,649	5,919,287
Short-term placements with financial institutions	44,905,000	20,383,300
Cash and short-term deposits	51,385,649	26,302,587
Less: restricted balances	(51,707)	(20,378)
Cash and cash equivalents	51,333,942	26,282,209

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 2.5% to 3.5% (2018: 2% to 3.25%) per annum.

As at and for the year ended 31 December 2019

### 14 ISLAMIC FINANCE RECEIVABLES

	Musawama	ljara	Real estate	Tawaruq	Total
31 December 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)
	4,329,266	1,770,145	23,476	1,006,923	7,129,810
Less: impaiment losses	7,323,200	1,770,143	23,470	1,000,923	7,129,010
- General	-	-	233	-	233
- Specific	4,329,266	1,770,145	-	1,006,923	7,106,334
	4,329,266	1,770,145	233	1,006,923	7,106,567
			23,243		23,243
			23,243		
Gross amount of credit facilities individually determined to be impaired	5,214,765	2,109,552	-	1,101,634	8,425,951
		-			
	Musawama	ljara	Real estate	Tawaruq	Total

	Musawama	ljara	Real estate	Tawaruq	Total	
31 December 2018	KD	KD	KD	KD	KD	
Gross receivables	5,372,069	2,127,858	96,144	1,134,899	8,730,970	
Less: deferred income	(911,029)	(343,872)	(7,330)	(104,463)	(1,366,694)	
	4,461,040	1,783,986	88,814	1,030,436	7,364,276	
Less: impaiment losses						
- General	-	-	887	-	887	
- Specific	4,461,040	1,783,986	-	1,023,267	7,268,293	
	4,461,040	1,783,986	887	1,023,267	7,269,180	
		-	87,927	7,169	95,096	
Gross amount of credit facilities individually determined to be impaired	5,372,069	2,127,858	-	1,134,899	8,634,826	

Expected Credit Losses on credit facilities determined computed under IFRS 9 in accordance with CBK guidelines amounted to KD 7,106,334 as at 31 December 2019 (2018: KD 7,262,418), which is lower than the provision required by CBK instructions. As a result, no additional provision has been made.

As at and for the year ended 31 December 2019

#### 14 ISLAMIC FINANCE RECEIVABLES (continued)

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

	2019	2018
	KD	KD
Construction and real estate	23,243	87,927
Others	-	7,169
	23,243	95,096

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

	General		Spe	cific	Total		
	<b>2019</b> 2018		2019	2018	2019	2018	
	KD	KD	KD	KD	KD	KD	
At 1 January	887	10,911	7,268,293	7,490,742	7,269,180	7,501,653	
Net reversals during the year (Note 10)	(654)	(10,024)	(154,992)	(123,488)	(155,646)	(133,512)	
Write-off	-	-	(6,967)	(98,961)	(6,967)	(98,961)	
At 31 December	233	887	7,106,334	7,268,293	7,106,567	7,269,180	

#### 15 TRADING PROPERTIES

Trading properties are measured at the lower of cost and net realisable value (NRV). NRV is is assessed by reference to market conditions and prices existing at the reporting date and is determined by external valuers, based on comparable transactions for properties in the same geographical market serving the same real estate segment. As at 31 December 2019, the NRV of Group's trading properties amounted to KD 16,523,265 (2018: KD 16,236,435)

Certain trading properties located in Oman and Lebanon with an aggregate carrying value of KD 1,053,118 (2018: KD 1,053,118) are registered in the names of nominees on behalf of the Group, and there are letters of renunciation in favour of the Group confirming that it is ultimate beneficiary of these properties.

Trading properties include repossessed properties amounting to KD 10,908,511 (2018: KD 10,908,511) recorded against early settled real estate financing receivables of KD 6,525,531 (2018: KD 6,525,531). The difference which represents the down payment expected to be refunded to the customer, relating to the real estate financing deals, less incurred expenses, was recorded in the statement of financial position as other liabilities at an amount of KD 3,551,067 (2018: KD 3,551,067) (Note 27).

Certain trading properties with a carrying value of KD 550,939 (2018: KD 550,939) are pledged as a collateral to to fulfil collateral requirements of Islamic finance payables (Note 26).

As at and for the year ended 31 December 2019

#### 16 INVESTMENT IN ASSOCIATES

The principal associates of the Group are as follows:

Name of associate	Country of	% equity interest		Principal activities	Carrying amount	
	incorporation	2019	2018	activities	2019	2018
					KD	KD
Abyar Real Estate Development Company K.S.C.P. ("Abyar") *	Kuwait	17.0%	17.0%	Real estate	-	14,364,473
Hajar Tower Real Estate Company K.S.C.C. ("Hajar")****	Kuwait	31.5%	31.5%	Hospitality and residential services	5,820,916	4,625,486
Mashaer Holding Company K.S.C.P. ("Mashaer") **	Kuwait	24.5%	24.4%	Real estate	5,720,433	5,177,840
Rawahel Holding Company K.S.C.C. ("Rawahel) ****	Kuwait	33.4%	33.4%	Transportation	5,709,344	6,530,933
Al-Jaddaf Real Estate Company K.S.C.C. ("Al Jaddaf") ****	Kuwait	26.5%	26.5%	Real estate	2,917,624	2,919,829
Oman Integral Logistcs Company O.S.C.C ("Oman Integral")***	Oman	50.0%	50.0%	Logistics	3,787,069	3,847,904
Aayan Leasing Company W.L.L. ("ALC") ****	Qatar	33.0%	33.0%	Leasing	5,759,221	6,222,525

- \* The Group's equity interest in Abyar is less than 20% of the voting rights; however, the Group has determined that it has significant influence over this entity because it has meaningful representation on the board of the investee. The decline in the carrying value of the Group's investment in Abyar is mainly due to the Group's share of losses from the associate of KD 5,870,795 during the current year as a result of losses incurred on certain investment properties and properties under development. Further, the fair value of the Group's investment in Abyar (based on quoted market price in Boursa Kuwait) was KD 1,467,012 and the carrying amount of the net assets of the entity exceeds its market capitalisation. Notwithstanding the above, the management determined based on the current market conditions, significant financial difficulty and near-term prospects of the associate that the investment is impaired. Accordingly, the Group recorded an impairment loss of KD 8,493,678 for the year ended 31 December 2019.
- \*\* As at 31 December 2019, the fair value of the Group's investment in Mashaer (based on quoted market price in Boursa Kuwait) was KD 3,393,330 and the carrying amount of the net assets of the entity exceeds its market capitalisation. However, the management concluded there is no indication for impairment when considered with other available information.
- \*\*\* Included in the carrying amount of the investment in the associate is goodwill of KD 112,822 (2018: KD 112,822).
- \*\*\*\* Private entities no quoted price available.

	2019	2018
	KD	KD
Group's share of net assets		
Assets	63,888,195	84,493,933
Liabilities	(25,792,732)	(40,598,486)
Group's share of net assets	38,095,463	43,895,447
Goodwill	112,822	112,822
Impairment losses	(8,493,678)	-
	29,714,607	44,008,269
		<del></del>

As at and for the year ended 31 December 2019

### 16 INVESTMENT IN ASSOCIATES (continued)

	2019	2018
	KD	KD
Group's share of total comprehensive income		
Revenue	10,825,539	7,220,476
Share of (loss) profit	(3,906,638)	65,335
Share of other comprehensive loss	(287,185)	(232,772)
Dividends received	675,764	2,339,285

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

### Reconiciliation to the carrying amounts

	2019	2018
	KD	KD
At 1 January	44,008,269	48,527,998
Effect of adoption of IFRS 9	-	(25,292)
Share of (loss) profit	(3,906,638)	65,335
Share of other comprehensive loss	(287,185)	(232,772)
Impairment losses	(8,493,678)	(85,337)
Dividend received from associates	(675,764)	(2,339,285)
Dividend receivable from associates	(628,644)	(249,145)
Sale of an associate	(319,279)	-
Other movement	-	(1,643,541)
Exchange differences	17,526	(9,692)
At 31 December	29,714,607	44,008,269

### 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.

As at and for the year ended 31 December 2019

### 16 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	-	-	-	-	-	
						-
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	

As at and for the year ended 31 December 2019

### 16 INVESTMENT IN ASSOCIATES (continued)

Summarised financial information for associates (continued)

31 December 2018	Abyar	Mashaer	Hajar	Rawahel	Al-Jaddaf	ALC	Oman Integral
	KD	KD	KD	KD	KD	KD	KD
Total assets	179,142,576	30,244,304	56,871,104	36,057,595	11,062,039	24,419,841	10,555,329
Total liabilities and non-controlling interests	(94,574,574)	(9,025,590)	(42,187,019)	(16,496,101)	(51,016)	(5,563,705)	(3,085,165)
Equity attributable to parent company	84,568,002	21,218,714	14,684,085	19,561,494	11,011,023	18,856,136	7,470,164
Group's share in equity %	17.0%	24.5%	31.5%	33.4%	26.5%	33%	50.0%
Group's share in associate	14,364,473	5,177,840	4,625,486	6,530,933	2,919,829	6,222,525	3,735,082
Goodwill	-	-	-	-	-	-	112,822
Group's carrying amount in associate	14,364,473	5,177,840	4,625,486	6,530,933	2,919,829	6,222,525	3,847,904
Contingent liabilities and commitments	9,544,715	688,800	-	-	-	-	-
Revenue	276,611	(452,728)	4,026,657	6,008,530	5,602	3,618,724	2,388,633
Profit (loss)	(1,686,881)	(3,988,135)	1,620,044	853,743	(13,825)	2,639,418	350,083
Other comprehensive income (loss)	460,753	(475,690)	-	(130,485)	-	-	-
Total comprehensive (loss) income	(1,226,128)	(4,463,825)	1,620,044	723,258	(13,825)	2,639,418	350,083
Dividend from associates	-	-	1,264,032	249,522	-	1,074,876	-

As at and for the year ended 31 December 2019

#### 17 INVESTMENT PROPERTIES

	2019	2018
	KD	KD
As at 1 January	140,655,853	128,905,000
Additions	2,378,468	4,451,884
Disposals	(19,324,521)	(4,248,385)
Valuation gains from investment properties (Note 7)	28,581	10,157,642
Write off of an investment property (Note 10)	(525,000)	-
Exchange differences	349,627	1,389,712
As at 31 December	123,563,008	140,655,853
Developed properties	119,594,655	137,149,448
Properties under development	3,968,353	3,506,405
	123,563,008	140,655,853

During the current year, the Group has sold investment properties with an aggregate carrying value of KD 19,324,521 [2018: KD 4,248,385] for a total cash consideration of KD 20,506,000 (2018: KD 4,463,611) resulting in a gain on sale of amounting to KD 1,181,479 (2018: KD 215,226) recognised in the statement of profit or loss for the year then ended (Note 7).

Investment properties with a carrying value of KD 68,310,252 (2018: KD 77,227,347) have been pledged as a collateral for Islamic finance payables [Note 26].

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 increase of KD 28,581compared to its carrying values as at 31 December 2019 (2018: KD 10,157,642). The Group classifies its investment properties as Level 2 in the fair value measurement hierarchy (Note 36).

Significant increases (decreases) in estimated price per square metre, estimated rental value and rent growth per annum, 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.

As at and for the year ended 31 December 2019

### 18 OTHER ASSETS

	2019	2018
	KD	KD
Trade receivables, net	3,924,505	4,799,166
Receivables from sale of real estate	20,000	-
Prepaid expenses	986,503	1,223,435
Amounts due from related parties (Note 31)	2,518,065	2,365,741
Advances to suppliers	27,172	1,283,048
Inventories	642,123	977,726
Refundable deposits	715,266	1,044,899
Dividend receivables	792,367	130,194
Other receivables	1,417,743	1,270,325
	11,043,744	13,094,534

As at 31 December 2019, the Group's carrying amount of trade receivables is net of an allowance for expected credit losses of KD 8,753,696 (2018: KD 8,453,218).

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

	2019	2018
	KD	KD
As at 1 January	13,268,442	7,641,615
Impairment of other assets (Note 10) *	2,438,508	1,808,610
Allowance for expected credit losses (ECL) on trade receivables (Note 10)	820,269	3,817,271
Write-off **	(1,492,810)	-
Foreign exchange movement	(18,688)	946
As at 31 December	15,015,721	13,268,442

<sup>\*</sup> This represents impairment on receivable balances other than trade receivables.

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

As at and for the year ended 31 December 2019

### 19 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
Cost and valuation								
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 (Note 3.2)	-	-	-	-	-	-	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)
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
Depreciation and impairment								
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)
At 31 December 2019	-	430,426	676,591	5,166,488	1,354,626	11,417,041	1,295,447	20,340,619
Net book value								
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

As at and for the year ended 31 December 2019

### 19 PROPERTY AND EQUIPMENT (continued)

Leasehold lands	Buildings	Furniture and fixtures	Tools and office equipment	Motor vehicles	Leased motor vehicles	Capital work in progress	Total
KD	KD	KD	KD	KD	KD	KD	KD
10,962,000	3,285,930	680,742	5,487,360	2,574,675	53,086,403	1,890	76,079,000
-	23,376	15,554	54,589	-	19,270,215	-	19,363,734
(16,000)	-	-	-	-	-	-	(16,000)
-	-	-	-	(2,120)	(7,278,377)	-	(7,280,497)
-	-	-	-	-	(9,827,137)	-	(9,827,137)
10,946,000	3,309,306	696,296	5,541,949	2,572,555	55,251,104	1,890	78,319,100
-	261,926	568,907	4,954,454	537,363	9,583,470	-	15,906,120
-	147,420	9,058	112,653	101,143	8,974,250	-	9,344,524
-	-	84,432	11,699	1,041,790	-	1,890	1,139,811
-	-	-	-	(346,302)	(6,934,195)	-	(7,280,497)
-	409,346	662,397	5,078,806	1,333,994	11,623,525	1,890	19,109,958
10,946,000	2,899,960	33,899	463,143	1,238,561	43,627,579	-	59,209,142
	lands  KD  10,962,000  - (16,000)  - 10,946,000	kD         KD           10,962,000         3,285,930           -         23,376           (16,000)         -           -         -           10,946,000         3,309,306           -         -           147,420         -           -         -           -         409,346           -         -           -         409,346	KD         KD         KD           10,962,000         3,285,930         680,742           -         23,376         15,554           (16,000)         -         -           -         -         -           -         -         -           10,946,000         3,309,306         696,296           -         -         -           -         261,926         568,907           -         147,420         9,058           -         -         84,432           -         -         -           -         409,346         662,397           -         -         -           -         409,346         662,397	No.   No.	No.   No.	KD         CD         CD<	No.   No.

### 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:

	2019	2018
	KD	KD
Within one year	10,363,412	11,625,599
After one year but not more than five years	5,341,609	11,625,599 5,905,928
	15,705,021	17,531,527

As at and for the year ended 31 December 2019

#### 19 PROPERTY AND EQUIPMENT (continued)

Leasehold lands primarily comprise of lands which are leased from the government of State of Kuwait. The carrying value of leasehold lands are KD 11,537,000 (2018: KD 10,946,000).

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

	2019	2018
	KD	KD
Depreciation of motor vehicles (Note 6)	9,161,750	9,075,393
Depreciation expense of right-of-use asset relating to leasehold property	957,210	-
Administrative expenses	579,730	269,131
	10,698,690	9,344,524

Set out below, are the carrying amount of the Group's right-of-use asset and the movement during the year:

	Right-of-use assets
	KD
At 1 January 2019	5,140,002
Depreciation expense of right-of-use assets	(1,295,447)
At 31 December 2019	3,844,555

#### Revaluation of leasehold lands

Leasehold lands are 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.

As at and for the year ended 31 December 2019

#### 20 LEASEHOLD PROPERTY

	2019	2018
	KD	KD
As at 1 January	5,443,802	6,775,563
Amortisation (Note 7)	(1,331,761)	(1,331,761)
As at 31 December	4,112,041	5,443,802

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

#### Fair value disclosure of leasehold property

The Group complies with the real estate valuation procedures set out in Module 11 "Dealing in Securities" of the CMA Executive Bylaws, which require valuations of local real estate properties to be determined by at least two independent, registered and accredited real estate appraised provided that one of them is a local bank and that the lower value is taken into account.

The fair value of the leasehold property as at 31 December 2019 is determined based on valuations carried out by the respective appraisers using the income capitalisation approach amounted to KD 8,340,000.

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

#### 21 GOODWILL

Goodwill is monitored by management at the level of the operating segments identified in Note 32.

The Group tests whether goodwill has suffered any impairment on an annual basis. For the 2019 and 2018 reporting periods, the recoverable amount of the cash-generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends and have been based on historical data from both external and internal sources.

		2019 From To		2018	
				From	То
<b>&gt;</b>	Pre-tax discount rate (%)	12%	14%	11%	13%
<b>&gt;</b>	Long-term growth rate (%)	2%	3%	2%	3%
▶	% annual growth rate used to extrapolate free cash flows	2%	3%	2%	3%

The carrying amount of the CGUs was determined to be higher than its recoverable amount and, accordingly an impairment loss of KD 945,874 during the year ended 31 December 2019 (2018: nil) was recognised. The impairment loss was fully allocated to goodwill and included in 'Net impairment losses, expected credit losses and provisions" (Note 10).

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#### 22 SHARE CAPITAL

	Number of shares 2019 2018		Authorised, issued and fully paid	
			2019	2018
			KD	KD
Shares of 100 fils each (paid in cash)	814,038,824	814,038,824	81,403,882	81,403,882

#### 23 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.

No transfers were made to the statutory reserve during the current year as the Group incurred accumulated losses.

#### **General reserve**

- No transfers were made to the general reserve during the year as the Group incurred accumulated losses.
- 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 25).

#### 24 ASSET REVALUTION 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, see accounting policy note 3.4.16 for details.

#### 25 TREASURY SHARES AND TREASURY SHARES RESERVE

	2019	2018
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)	573,729	461,209
Weighted average market price – (fils)	46.4	37.3

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.

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#### 26 ISLAMIC FINANCE PAYABLES

	2019	2018
	KD	KD
Relating to the Parent Company <sup>1</sup>	136,874,221	138,585,274
Relating to subsidiaries <sup>2</sup>	15,087,281	15,064,455
	151,961,502	153,649,729

The restructured debt of the Parent Company is due to be settled based on restructuring agreement dated 2 July 2012 and the amendments thereto.

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 investors. 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. Based on the last roll-over dated 27 September 2018, the approved amended amortisation dates for the remaining principal Islamic finance payables amounting to KD 137 million were as follows:

Repayment date	Payable in KD	Payable in KD Payable in USD Payable in AEI (KD equivalent) Payable in AEI		Total KD
28 March 2019*	7,659,388	2,138,740	274,727	10,072,855
31 March 2020	22,978,166	6,416,219	824,180	30,218,565
31 March 2021	73,654,637	20,343,977	2,584,187	96,582,801
Total	104,292,191	28,898,936	3,683,094	136,874,221

Islamic finance payables carry an average effective profit rate of 5% (2018: 5%) per annum.

\* At 28 March 2019, an amount of KD 10 million was 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 lenders consented to it. 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 of execution of the appeal verdict during the pendency of the appeal which was approved on 5 January 2020. The Court of Cassation, based on the legal advice received, is expected to consider the cross-appeal.

As at and for the year ended 31 December 2019

### 26 ISLAMIC FINANCE PAYABLES (continued)

<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 45 million (31 December 2018: KD 56 million), investment in an associate amounting to KD 17 million (31 December 2018: KD 31 million) and shares of certain consolidated subsidiaries.

#### **27 OTHER LIABILITIES**

	2019	2018
	KD	KD
Trade payables	6,750,931	7,822,012
Payables to financing customers on repossession of properties (Note 15)	3,551,067	3,551,067
Real estate payables	973,867	1,735,228
Advances from customers and security deposits	2,525,864	3,324,227
Provision for employees' end of service benefits and accrued staff leave	4,290,899	3,895,060
Dividends payable	574,712	276,698
Amounts due to related parties (Note 31)	161,721	88,263
Provisions and other accruals	11,439,452	7,334,048
Lease liabilities	3,925,426	-
Other payables	5,031,681	4,594,023
	39,225,620	32,620,626

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

	Lease liabilities
	KD
At 1 January 2019	5,140,002
Finance costs	78,855
Payments	(1,293,431)
At 31 December 2019	3,925,426

<sup>&</sup>lt;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 23 million (2018: KD 21 million), certain trading properties amounting to KD 0.6 million (2018: KD 0.6 million) (Note 14) and the Group's investment in shares of a wholly owned subsidiary.

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#### 28 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 2019. 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 26 April 2019 approved the consolidated financial statements for the year ended 31 December 2018. No cash dividends or bonus shares were declared for the year then ended.

#### 29 COMMITMENTS AND CONTINGENCIES

#### **Commitments**

The Group has commitments in respect of future capital expenditure amounting to KD 168,997 (2018: KD 162,086) relating to ongoing projects under construction.

#### **Contingent liabilities**

At 31 December 2019, the Group's bankers have provided bank guarantees, amounting to KD 314,337 (2018: KD 622,824) from which it is anticipated that no material liabilities will arise.

#### 30 FIDUCIARY ASSETS

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

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 2019, assets under management amounted to KD 47,530,623 (2018: KD 51,797,253).

Income earned from fiduciary assets amounted to KD 360,500 for the year ended 31 December 2019 (2018: KD 760,687).

#### 31 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 2019	Total 2018
	KD	KD	KD	KD	KD
Finance costs	11,124	762,589	-	773,713	2,831,556
Advisory and management fees	-	-	234,018	234,018	278,844
	Associates	Major shareholders	Other related parties	Total 2019	Total 2018
	KD	KD	KD	KD	KD
Cash and cash equivalents	-	1,029,282	-	1,029,282	924,008
Amounts due from related parties (Note18)	715,507	-	1,802,558	2,518,065	2,365,741
Islamic finance payables	993,980	31,496,558	-	32,490,538	55,843,169
Amounts due to related parties (Note 27)	161,721	-	-	161,721	88,263

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#### 31 RELATED PARTY DISCLOSURES (continued)

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

Transaction with related parties are made on terms approved by the Group's management. 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 2019, the Group has not recognised any allowance for expected credit losses relating to amounts owed by related parties (2018: 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 Board of Directors and 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.

	2019	2018
	KD	KD
Salaries and other short term benefits	1,091,272	1,120,909
Employees end of service benefits	449,423	333,531
	1,540,695	1,454,440

### 32 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 and asset management: Buying, selling, and investing in real estate
- Proprietary investment and assets management: Operations of Group's subsidaires and associates (excluding leasing related subsidiaires and associates) and managing funds and portfolios.

As at and for the year ended 31 December 2019

### 32 SEGMENT INFORMATION (continued)

	Islamic financing	Leasing sector	Real estate	Proprietary investment and assets management	Others	Total
	KD	KD	KD	KD	KD	KD
As at 31 December 2019						
Total assets	-	83,188,139	57,922,940	121,173,230	34,622,109	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	10,357,748	3,059,154	1,231,485	-	14,688,134
Segment profit (loss)	(84,700)	2,219,029	371,929	(15,066,600)	(733,987)	(13,294,329)
Depreciation	-	(9,556,305)	(960,587)	(181,798)	-	(10,698,690)
Amortisation of leasehold property	-	-	(1,331,761)	-	-	(1,331,761)
Net impairment losses	154,991	(1,971,177)	(1,533,241)	(8,612,411)	(752,352)	(12,714,190)
Share of results of associates	-	351,483	-	(4,258,121)	-	(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

As at and for the year ended 31 December 2019

### 32 SEGMENT INFORMATION (continued)

	Islamic financing	Leasing sector	Real estate	Proprietary investment and assets management	Others	Total
	KD	KD	KD	KD	KD	KD
As at 31 December 2018						
Total assets	7,170	81,780,532	72,686,039	136,000,321	16,581,757	307,055,819
Total liabilities	698,436	64,592,075	18,253,105	92,173,048	10,553,691	186,270,355
Goodwill	-	945,874	-	91,005	-	1,036,879
Year ended 31 December 2018						
Revenue	35,680	10,389,005	3,503,371	14,991,078	339,939	29,259,073
Segment profit (loss)	(136,556)	(2,143,623)	5,311,492	3,188,388	273,130	6,492,831
Depreciation	-	(9,224,068)	(31,029)	(89,427)	-	(9,344,524)
Amortisation of leasehold property	-	-	(1,331,761)	-	-	(1,331,761)
Net impairment losses	123,488	(6,372,606)	(516,214)	(200,315)	-	(6,965,647)
Share of results of associates	-	1,033,771	-	(968,436)	-	65,335
Other disclosures:						
Capital expenditure	-	18,676,922	-	-	686,812	19,363,734
Investment in associates	-	12,816,191	-	31,192,078	-	44,008,269

## Geographical information

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

As at and for the year ended 31 December 2019

#### 33 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.

#### 33.1 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:

	2019	2018
	KD	KD
Cash and short-term deposits	51,385,649	26,302,587
Trade receivables	3,924,505	4,799,166
Receivables from related parties	2,518,065	2,365,741
Other receivables	4,601,174	5,929,627
Islamic finance receivables	23,243	95,096
	62,452,636	39,492,217

#### 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.

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

#### 33.1 Credit risk (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 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%	

	Trade receivables				
31 December 2018		Days past due			
	Current	91-180 days >180 days Total			
	KD	KD	KD	KD	
Estimated total gross carrying amount at default	3,163,282	1,165,482	8,923,620	13,252,384	
Estimated credit loss	1,277,891	494,667	6,680,660	8,453,218	
Expected credit loss rate	40%	42%	75%	64%	

#### 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:

- b 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);
- b 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;

As at and for the year ended 31 December 2019

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

#### 33.1 Credit risk (continued)

#### Islamic finance receivables (continued)

#### Definition of default (continued)

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

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

- ► 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 allocaiton 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.



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

#### 33.2 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:

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	376,317	978,516	2,570,593	3,925,426
Other liabilities*	4,843,972	9,905,384	15,589,708	30,339,064
	46,541,541	18,609,956	121,443,174	186,594,671

<sup>\*</sup> excluding advances and provisions

2018	Less than 3 months	3 to 12 months	1 to 5 years	Total
	KD	KD	KD	KD
Islamic finance payables	13,215,848	7,703,338	134,589,256	155,508,442
Other liabilities*	5,730,276	11,492,410	10,065,870	27,288,556
	18,946,124	19,195,748	144,655,126	182,796,998

<sup>\*</sup> excluding advances and provisions

#### 33.3 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 predetermined 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.

As at and for the year ended 31 December 2019

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

#### 33.3 Market risk (continued)

#### 33.3.1 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.

#### 33.3.2 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.

#### 33.3.3 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) and Emirati Dinars (AED) at 31 December 2019 equivalent to KD 32,582,030 (2018: KD 32,608,726).

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.

	2019		2018	
Currency	Change in Effect on currency rate results		Change in currency rate	Effect on results
		KD		KD
US Dollars	+5%	1,444,947	+5%	1,465,889
AED	+5%	184,155	+5%	184,300

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

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### 34 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.

31 December 2019	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 property	-	-	-	-	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

As at and for the year ended 31 December 2019

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

31 December 2018	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 cash equivalents	26,282,209	-	-	20,378	-	26,302,587
Islamic finance receivables	23,657	16,486	32,972	21,981	-	95,096
Trading properties	-	-	14,382,872	-	-	14,382,872
Financial assets at FVTPL	77,425	-	152,305	1,567,130	633,099	2,429,959
Financial assets at FVOCI	-	-	-	396,826	-	396,826
Investment in associates	-	-	111,009	25,494,022	18,403,238	44,008,269
Investment properties	1,048,000	-	-	109,363,577	30,244,276	140,655,853
Other assets	7,220,120	1,640,193	3,155,058	1,002,129	77,034	13,094,534
Property and equipment	8,130,408	3,664,826	6,701,054	23,589,120	17,123,734	59,209,142
Leasehold property	-	-	-	-	5,443,802	5,443,802
Goodwill	-	-	-	-	1,036,879	1,036,879
TOTAL ASSETS	42,781,819	5,321,505	24,535,270	161,455,163	72,962,062	307,055,819
LIABILITIES						
Islamic finance payables	12,273,626	184,056	7,312,352	133,879,695	-	153,649,729
Other liabilities	7,555,244	3,256,245	8,456,023	10,606,065	2,747,049	32,620,626
TOTAL LIABILITIES	19,828,870	3,440,301	15,768,375	144,485,760	2,747,049	186,270,355
NET	22,952,949	1,881,204	8,766,895	17,060,408	70,124,008	120,785,464

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#### 35 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.

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.

	2019	2018
	KD	KD
Islamic finance payables	151,961,502	153,649,729
Other liabilities	37,892,221	30,560,328
Less: Cash and short-term deposits	(51,385,649)	(26,302,587)
Net debt	138,468,074	157,907,470
Equity attributable to the equity holders of the Parent Company	<b>68,415,06</b> 6	81,839,096
Capital and net debt	206,883,140	239,746,566
Gearing ratio	67%	66%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

#### 36 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.

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### 36 FAIR VALUE MEASUREMENT (continued)

### Fair value hierarchy (continued)

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		
31 December 2019						
Assets measured at fair value:						
Investment securities:						
Financial assets at FVOCI	58,874	-	223,551	282,425		
Financial assets at FVTPL	213,421	864,402	1,092,561	2,170,384		
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 property	-	4,112,041	-	4,112,041		
Investment in associates	5,720,433	-	-	5,720,433		

As at and for the year ended 31 December 2019

### 36 FAIR VALUE MEASUREMENT (continued)

Fair value hierarchy (continued)

31 December 2018				
Assets measured at fair value:				
Investment securities:				
Financial assets at FVOCI	58,126	-	338,700	396,826
Financial assets at FVTPL	286,082	752,550	1,391,327	2,429,959
Investment properties:				
Investment properties	-	140,655,853	-	140,655,853
Revalued property and equipment:				
Leasehold lands	-	10,946,000	-	10,946,000
	344,208	152,354,403	1,730,027	154,428,638
Assets for which fair values are disclosed:				
Leasehold property	-	5,443,802	-	5,443,802
Investment in associates	19,542,313	-	-	19,542,313

There were no transfers between any levels of the fair value hierarchy during 2019 or 2018.

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### 36 FAIR VALUE MEASUREMENT (continued)

#### Fair value hierarchy (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:

31 December 2019	Financial assets at FV0CI	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
31 December 2018	Financial assets at FV0CI	Financial assets at FVTPL	Total
	KD	KD	KD
As at 1 January 2018	338,700	1,001,143	1,339,843
IFRS 9 transition adjustment	-	133,755	133,755
Remeasurement recognised in profit or loss	-	(49,824)	(49,824)
Purchases / sales (net)	-	306,253	306,253
As at 31 December 2018	338,700	1,391,327	1,730,027

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.